HOW TO RUN A RETAIL BUSINESS AT GREATER PROFIT

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(KEEPING UP WITH RISING COSTS)

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ABOUT THE COST FIGURES IN THIS BOOK

YOU will find a great many cost-of-doing business figures in this book. These figures were collected during a period affected by abnormal changes, and naturally the question of whether or not they nevertheless hold good will occur to you, because you will have in mind the radical influences on prices during and after the Great War. This note is inserted here to answer any questions you may have on this point.

The Bureau of Business Standards of the Shaw Publications has been constantly watching the effect of current economic changes on the figures. As a result of this observation, the Bureau has decided that the figures remain indicative and that you will find them as useful now as when they were first collected. Otherwise the Bureau would have supplied new figures from its current studies.

The explanation is that the cost figures are expressed as percentages of the sales. The recent increases in store costs have been accompanied by greatly increased sales, in part at least springing from the higher prices at which the usual articles in stock must be sold. So, as it costs more to run a store, the percentages of cost (expressed as percentages of the sales) have held about the same. As a matter of fact, in stores of a certain type, particularly department or "general" stores in cities of around 30,000 to 50,000, increases in the cost of doing business expressed as percentages of the stores' sales have been very small indeed.

Here is an instance which indicates how accurate the Bureau has been in its conclusion that these cost figures still serve the purpose for which they were collected. The Bureau of Business Research of the Harvard Graduate School of Business Administration recently announced the results of an investigation into the current cost of selling hardware at retail. It placed the common cost at 20.6% of the sales. On another page, you will find the figures in this book place it at 20.4%. You see, the percentages have remained about the same while the actual costs changed under them.

Of course, because the cost percentages in this book remain indicative is no reason to conclude that rising costs are no longer a problem. Of course, it really costs more to sell—much more. The explanation is merely that the percentages figured on the sales cloak the higher costs. In other words, this book should be just what you want now—it will help you ferret out the hidden cost increases and suggest ways to meet them.

KEEPING UP WITH RISING COSTS

I—HIGHER COSTS AND HOW TO MEET THEM

II—WHAT IT COSTS TO SELL THE GOODS

III—WHAT IT COSTS TO KEEP STORE

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FIGURES

FORMS

AVERAGE *cost of doing business figures from over one thousand five hundred distributive concerns make this book different from any other ever published. Never before has it been possible to obtain figures of this sort from American merchants, for they have been jealously guarded "trade secrets." It has been a blind race against rising costs with "the devil take the hindmost." If business is actually growing into a new profession—the greatest of all the professions—then the fifteen hundred-odd men who forgot the "trade secret" bogey and made this book possible belong among the founders of that profession.*

There is not space for the one thousand five hundred names, otherwise they would be printed here as fully as the confidential conditions under which the figures were collected would permit, for each merchant deserves as much commendation as the next. They are therefore referred to in a group—a group that binds together by a high ideal men with both large and small material interests: John Wanamaker and John Bellaire; Edward A. Filene and Edward P. Russell, and so on through the long list.

Although it is not possible to mention individually all who contributed figures and methods to the book, reference must be made to a number of the private, public and semi-public organizations that have given generous assistance. These have laboriously collected cost figures, and their results, when correlated with the other costs obtained in the field by SYSTEM'S *investigators, in no small degree give the book its authority. They also are too numerous for mention in full, but the following particularly deserve the thanks of those who find use for the hundreds of tested means of expense control given in the pages that follow:*

The National Dry Goods Association; The National Association of Commissary Managers; The National Pipe and Supply Association; The Electric Vehicle Association of America (William P. Kennedy's delivery costs); The National Shoe Wholesalers' Association; The National Association of Retail Grocers of America; The Bureau of Business Research; Harvard Graduate School of Business Administration; The Extension Division, University of Wisconsin; The National Hardware Association of the United States; The National Boot and Shoe Manufacturers' Association; The National Shoe Retailers' Association; The National Wholesale Grocers' Association; The National Retail Hardware Association; The Harvard Cooperative Society; The General Fire Extinguisher Company; Robert H. Ingersoll and Brother; Marshall Field and Company; The Curtis Publishing Company; and Wilson Brothers.

To these and to all who have helped to make this volume possible, grateful recognition is now extended.

THE PUBLISHERS

PART I

HIGHER COSTS
AND
HOW TO MEET THEM

I

THE RISING COST OF DOING BUSINESS

COSTS are greater," says the manufacturer. "Net earnings are lower," states the shipper. "Margin of net profit is closer," the wholesaler and retailer respond. "Prices are higher," adds the consumer.

Cross-section any record of accounts, from cost of making to household budget, and you find the same slowly shrinking percentage left over for profits. It is a big problem. Reasons given are as unsatisfactory as they are many—politics, scarcity of gold, rapid development of new wants, extravagance, wild financing. Many theories are advanced, few facts.

Business men face facts, not theories. So out of business has come a nation-wide questioning.

National bodies of manufacturers, wholesalers, retailers, bankers, shippers, are asking not only why profits are dwindling in many lines, but, *with conditions as they exist,* how to stop this steady gain of costs upon selling prices which constantly threatens to narrow profits down to nothing.

Several years ago SYSTEM presented the results of a cost investigation beginning with these words: "Fifteen years it takes to make a business man—five to know what goods and clerk hire total; five to know the cost to keep store; five to recognize profit and stand up

for it.'' In the interval, this investigation has been widely extended and conditions have improved. National associations have taken up the work of assembling average costs in this and that line; wholesalers and manufacturers have gathered statistics; universities like Harvard and Wisconsin have collected figures from many concerns. Special investigators have covered a wide territory and even audited the books of many concerns for totals that permit the soundest comparison. A summary of these figures, at first representing the cost of doing business in 579 establishments and gradually extending to include more than 1,500 stores, after reproduction in SYSTEM, is in the following chapters presented in fully revised form and with figures most carefully verified.

The assembling of this material is one sign of a new era—that of cooperation between manufacturer, distributor and retailer—in which the old-fashioned secrecy that put the average store at the mercy of cut price competition and ''shaded'' qualities is giving way to the helpful interchange of data. Early in the investigation it was found that the more progressive merchants in almost every town selected for study were keenly interested in determining average standards of costs. The investigators worked out a method of tabulating accurate returns in cipher, so as to take care of the merchant's legitimate interest in keeping his figures from his immediate competitors. The result was and still is gratifying, for the investigation has continued successfully and many merchants are still volunteering figures which make the averages on hand constantly of greater value. The readiness of manufacturers, jobbers and dealers to help, their quick recognition of their need and of the value of more definite knowledge of the

proportionate items of costs, indicate a fundamental advance in methods of doing business.

Magic percentages based on no foundation except legend are constantly cropping out in business. If the manufacturer wants to charge depreciation on a machine—he writes off ten per cent. A wholesaler is attempting to fix a price that will protect the retailer—he adds ten per cent. The dealer feels his need of a sum to cover incidentals—again the ten per cent. Business men are finding, however, that traditional standards no longer hold; that they must know, first, the items which constitute their cost of doing business; second, how these items vary.

No magic figure for all lines is to be expected. But just as all men are very close to the average man, so out of the investigation of many men's efforts to do business at low cost and with high profit merge reasonable standards for single expense items and fair averages for the total cost of doing business in one and another line, above or below which the average dealer in that line is unwise to go.

COST *standards enable the merchant to match his disadvantages with his advantages so accurately that he can easily pick the top-heavy items.*

Rent is, for example, unusually heavy with the furniture store, clerk hire with the shoe store; turnover slow or investment per sale heavy with the jeweler, and exactly the opposite with the variety store owner. Even within the same line there are interesting variations which not only explain the success and failure of various concerns, but also indicate how any store can develop an individuality. Where, for example, advertising expense is held down, show-window expense or rent for a central

location may be correspondingly high in the cost of doing business. The two factors balance against each other and two merchants having different retail costs succeed, each by making the most of his position.

Out of comparative figures there is nothing more vital for the merchant to get than a definite realization of his advantages and disadvantages, so that he can economize where necessary and throw the weight of his outlay into that phase of selling or service which counts most in the net result.

Twelve general lines of business have been chosen for the grouping of the cost figures. These percentages cover an average of something over one thousand concerns. What these standard figures are and how to put them to work in your store is the subject matter of the first chapter. In the following three chapters, the subject covered is, roughly, direct selling expense. This is taken to include salaries, with efficiency methods for cutting down the ratio clerk hire bears to sales and to profits; rents and their relation to the store location and the floor space which yields the most profit; advertising forces and their effective use by the retailer.

Operating expenses, including averages and cost-cutting methods, occupy the next three chapters. The first deals with delivery costs and cost-cutting; the second, with losses through depreciation, bad debts and so on; the third with upkeep, supply and miscellaneous expenses.

In the third section of the book are presented the cost and merchandising policies which the investigation has shown to be the keys to success in some of the most prosperous concerns with which SYSTEM has come in touch. In this part of the book these resourceful merchants give their proved solutions of the problem of

keeping up with rising costs and strengthening dwindling profits. The establishment of a cost policy and system intended to give you your own figures and enable you to compare them with standards is discussed in the first chapter; mark-ups and profits which, going beyond the interest on capital and the manager's wages, insure him a true profit in return for the extra initiative he has shown and the risks he takes, in the second; turnover, the all important factor of use of investment, in the third and last.

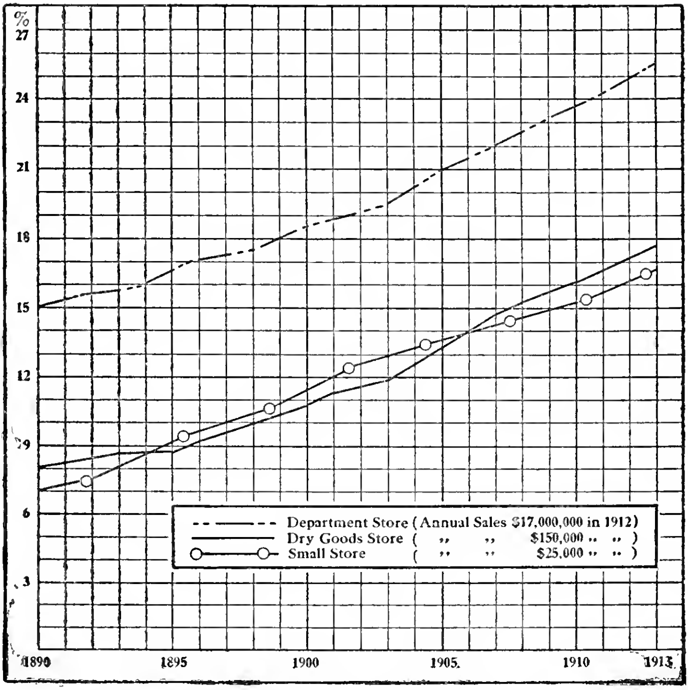


FIGURE I: Rising costs of doing business are shown to be advancing with equal rapidity in both large and small stores, for the three lines, each representing an actual retail concern, are all but parallel

COSTS *and* PROFITS *from* TWENTY-FOUR STATES

Costs of doing business and profits from thirty-eight stores in cities ranging in population from 7,500 to 300,000 or over in twenty-four states are here analyzed. These facts were collected by the National Dry Goods Association. It is exceedingly significant that the average cost of doing business is set at 23.8 per cent of the sales, while SYSTEM'S national investigation, made both independently and previously, fixed the average at 23.05 per cent, as detailed on page 20.

GROSS PROFITS (STATES WITH FIVE HIGHEST PERCENTAGES):

Kentucky	33.86%	Alabama	30.50%
Minnesota	33.30%	Virginia	31.41%
Tennessee	33.12%		

AVERAGE COSTS OF DOING BUSINESS (STATES WITH SIX HIGHEST AVERAGE PERCENTAGES):

Tennessee	27.34%	Nebraska	26.83%
Indiana	27.00%	Alabama	25.94%
Minnesota	27.00%	Texas	25.58%

AVERAGE NET PROFITS (STATES WITH SIX HIGHEST AVERAGE PERCENTAGES):

Utah	11.00%	Louisiana	9.40%
Kentucky	10.66%	Michigan	8.00%
West Virginia	9.80%	New York	6.00%

AVERAGE GROSS PROFITS (BY POPULATION AND LOCALITY):

75,000–100,000 population	33.23%
15,000–25,000 population	31.29%
100,000, and over, population	31.07%
50,000–75,000 population	30.20%
25,000–50,000 population	30.00%
Farming districts	31.80%
Manufacturing and farming localities	30.00%
Resorts	29.95%
Manufacturing centers	29.88%

AVERAGE COSTS OF DOING BUSINESS (BY POPULATION AND LOCALITY):

300,000, and over, population (lowest)	21.25%
75,000–100,000 population (highest)	27.03%
Shipping centers	24.88%
Farming districts	24.52%
Resorts	24.00%
Manufacturing centers	23.22%

AVERAGE NET PROFITS (BY POPULATION AND LOCALITY):

300,000, and over, population (highest)	8.40%
100,000, and over, population (lowest)	5.91%
Farming districts	7.28%
Manufacturing centers	6.66%
Manufacturing and farming localities	6.25%
Resorts	5.95%
Shipping centers	5.50%

A number of interesting facts will be brought out by a few moments' study of these figures. Notice, for instance, that the lowest costs join with the highest net profits in the larger cities. The averages for all of the stores in the twenty-four states are: gross profit, 30.45 per cent; net profit, 6.45 per cent; cost of doing business, 23.8 per cent. It should be understood that these percentages only refer to dry goods stores. The figures that established these averages were carefully audited by experts.

It is fortunately coming to be recognized as the most imperative fact in business that an article costs more, and probably is worth less, every day it lies on your shelves. Against the plan of taking a ten or twenty per cent net profit fifteen years ago, the modern merchant matches the plan of taking three or four or five per cent as many times in a year as his father turned his stock in half a decade.

Before this alert merchandising, the methods of Grandfather's Chair can not stand. The whole process of distribution seems, therefore, to be shifting into line with small stocks and quick turns.

Fixtures that help the customer decide quickly and for himself have the call over equipment, however costly, that retards turnover. Better appraisal of depreciation and shrinkage, with its accompaniment of frequent clearance sales, is an essential of fast-turn storekeeping, except as buyers grow in skill at balancing stocks accurately against standard price demand. The manufacturer, commission man and wholesaler sometimes complain that they have become large scale retailers to dealers who order small lots incessantly. But those who are making the most money have accepted the situation; regulated their plants and shipping facilities to this flow of trade; adopted the policy of short stocks for themselves; and thrown the weight of their influence for sound profits, permanent regular trade and short credits. Where the manufacturer has failed to do these things, large retailers have in several instances taken over factories in order that demand might make supply keep step.

With this period of necessary service and cooperation at hand, no enterprise at any point in the chain of distribution can afford not to know what cost items should

be and how to keep the retailer on a sound profit basis. This fact, already sensed by thousands of merchants and manufacturers, is the reason for this book.

System's investigations and studies of cost standards and cost control are still going on. These present figures make no pretense to being final, but instead merely attempt to offer averages of everyday practices which should help any merchant who studies them to better almost all departments of his storekeeping. More detailed figures will be presented and discussed in System from time to time; and as knowledge of costs becomes more general, such standards of expense will, the publishers believe, very greatly improve the balance, stability and general prosperity of American business.

II

COST FIGURES FROM 1560 STORES

RISING costs all but closed, within the past year, the doors of a department store which counts its annual sales in tens of millions. A month after moving to a new building, the cost of doing business increased from twenty-four and five-tenths per cent of the sales until it reached thirty-three and three-tenths. The president called his directors to a special meeting. "We face ruin," he said to them. "I know that, because our expenses are eating up exactly one-third of our sales. In the old store they never exceeded twenty-six and five-tenths per cent. You know as well as I do that retailing drives ahead under terrific speed nowadays, depending for safety on rapid turnovers at a net profit so small that an increase of a per cent or two means failure. We're seven per cent too high. The fact that we can borrow five hundred thousand within half an hour temporarily saves us. But there's a limit to our credit. Therefore, I leave it to you to cut our expense into the twenties before the end of this month. If you don't, we're going under, taking with us a factory or two."

Three directors were at once appointed a committee to reduce expenses. By going through the store, department by department, they quickly discovered that under the enthusiasm of expanding to the new building,

''luxuries'' had been allowed to creep into equipment and payroll. These they located and weeded out. A reference library was abandoned, a stenographer discharged here and a clerk there, the lights over the marquees no longer burned all night, store guides were set to helping behind the counters, the head electrician was assigned to detail work and one of his subordinates released. By the end of the month expenses were twenty-six and two-tenths per cent of the sales. The store is making a satisfactory net profit today.

A retailer of men's furnishings in an Indiana town was rescued from a corresponding situation by taking a traveling salesman into his confidence. ''I sold twenty-nine thousand last year—after taking out thirty-five dollars a week for my work, I had left about two hundred dollars net,'' he explained.

The manufacturer had given his selling force rough cost averages for clothing stores and had instructed them to protect future business by helping storekeepers who could not ''spot'' the expenses which drove their costs too high. The salesman offered to classify the retailer's expenditures. ''You're too high on your selling expense,'' he declared, after figuring out percentages for the more important items. ''The sales were $29,030.19 and you paid out, including what you drew yourself, $3,556.57 for wages. That's exactly twelve and a quarter per cent of your sales, and it should be about ten. On that one item alone you're six hundred dollars above the average.''

''That backs up what I've been thinking,'' replied the retailer. ''One of my men asked for a raise just when I was buying out my former partner, and I gave it to him because he knows people about town and I thought I needed his influence. Since then he has

lain down on the job and I've had to hire a young fellow from Chicago to help us. I guess that is why I am spending too much, but I had no way of telling. Now he's got to make more sales, stand a reduction, or get out."

FAILURE *or success depends on the exactness of the merchant's knowledge of his costs and gross profit margins because slight variations frequently mean losses.*

Variations in the expense account as slight as these point success or failure today because the cost of doing business, rising with the advance in rentals, wages and supplies, has cut down the net profit on sales. Manufacturer, middleman, and retailer, you are all three straining with equal power to keep up with your costs. And the consumer, he calls his struggle the high cost of living. Are not net profits in many great manufacturing businesses dwindling, although the sales volumes were never so large? Do not the railroads report record breaking gross earnings, but net profits that disappoint their stockholders? Have not those sellers at retail and wholesale who are making money, changed their methods from receiving rooms to counters in the effort to equal with numerous slim profits the single generous profit they took fifteen years ago?

This uphill climb which retail costs are taking parallels an apparent increase in manufacturing and jobbing expenses of operation. When the cost of doing business goes up one per cent, profits net that same per cent less. The chart on page 13 shows where costs have been going for the past twenty years. Without a halt, they have increased until doubled. For instance, retailers whose memories run back a quarter century recall eight and ten per cent as a normal cost of doing business. A

COST AVERAGES *and* EXPENSES

"Costs of doing business" in these tables exclude freight and cartage, losses from mark-downs, and gains through discounts. "Salaries" indicates direct sales payrolls, in some instances including the time spent by the proprietor in selling. "Delivery" and "light, heat and power" include payroll and upkeep charges. All irregular stock losses and all depreciation are listed under "depreciation and shrinkage." Items which cannot be

DRY GOODS STORE COSTS

The cost of doing business itemized above is the average for the United States as found by the investigation. Note (1) that stores handling the cheaper stocks have been eliminated; (2) that annual sales volumes of over five hundred thousand dollars were not included; (3) that freight and cartage charges are not included.

Rent	3.24%
Salaries	9.65%
Advertising	1.67%
Heat and light	.54%
Delivery	1.02%
Supplies	.38%
Insurance and Taxes	1.08%
General Expenses	4.15%
Depreciation and Shrinkage	1.11%
Bad Debts	.21%
Total Percentage of Expenses to Sales	23.05%

AVERAGE DRY GOODS STORE

This store is in the Southwest. The owner reports that he secures four turnovers a year through the store at a net mark-up of 28.9 per cent. Note how closely these actual figures check with the averages for the United States given on the left.

Rent	$ 1,550.06 or	3.1%
Salaries	4,800.19 or	9.6%
Advertising	750.03 or	1.5%
Heat and Light	200.01 or	.4%
Delivery	450.02 or	.9%
Supplies	200.01 or	.4%
Insurance and Taxes	550.02 or	1.1%
General Expenses	2,200.09 or	4.4%
Depreciation and Shrinkage	700.03 or	1.4%
Bad Debts	150.01 or	.3%
Total Expense	$11,550.47 or	23.1%

A SMALL DRY GOODS STORE

Investigation showed that on the average, small dry goods stores pay out again for expenses 16.21 per cent of their sales. Note that this typical middle-western small store: (1) makes no deliveries; (2) does not use expensive selling space.

Rent	$ 731.12 or	2.9%
Salaries	2,546.31 or	10.1%
Advertising	302.53 or	1.2%
Heat and Light	100.84 or	.4%
Delivery		
Supplies	50.42 or	.2%
Insurance and Taxes	201.69 or	.8%
General Expenses	50.42 or	.2%
Depreciation and Shrinkage	100.84 or	.4%
Bad Debts	25.21 or	.1%
Total Expense	$4,109.38 or	16.3%

A LARGE DRY GOODS STORE

Average dry goods stores securing annual sales above two hundred thousand dollars pay, the investigation established, expenses of 24.76 per cent when in competition with department stores in the larger cities. This Indiana store typifies them. Note (1) the high advertising percentage; (2) the rent.

Rent	$ 7,650.37 or	3.4%
Salaries	22,276.09 or	9.9%
Advertising	6,975.34 or	3.1%
Heat and Light	2,025.10 or	.9%
Delivery	3,150.15 or	1.4%
Supplies	1,575.08 or	.7%
Insurance and Taxes	2,700.13 or	1.2%
General Expenses	4,950.24 or	2.2%
Depreciation and Shrinkage	3,150.15 or	1.4%
Bad Debts	450.02 or	.2%
Total Expense	$54,902.67 or	24.4%

from the BOOKS *of* 1560 CONCERNS

allocated, administrative and buying salaries, indirect payrolls and investment charges make up "general expense." All figures refer to net sales. Add 1.5 per cent for Pacific Coast, southern and mountain states; and 2 per cent for cities over 400,000. Deduct .5 per cent for Atlantic Coast and 3 per cent for rural districts. Annual sales exceeding $5,000,000, readjustments for smaller volumes, and size of packages are not considered.

GROCERY STORE COSTS

Analyses of the expenses of groceries scattered from New York to Oregon fixed this average cost of doing business. Note (1) that groceries drawing trade from customers with either small or large incomes are not included; (2) that, since the average mark-up is 19.91 per cent of the selling prices, the turnovers are of necessity rapid and carry a low net profit

Rent	3.07%
Salaries	8.46%
Advertising	.83%
Heat and Light	.39%
Delivery	2.53%
Supplies	.37%
Insurance and Taxes	.58%
General Expenses	.45%
Depreciation and Shrinkage	.76%
Bad Debts	.47%
Total Percentage of Expenses to Sales	17.91%

AN AVERAGE GROCERY STORE

In a middle-western town of forty-three thousand this grocery handles annual sales of fifty thousand dollars at an expense close to the average. Note (1) that advertising costs less than in other lines; (2) that delivery expenses amount to almost as much as the rent.

Rent	$2,256.95 or	3.3%
Salaries	4,067.09 or	8.1%
Advertising	351.48 or	.7%
Heat and Light	251.05 or	.5%
Delivery	954.01 or	1.9%
Supplies	150.63 or	.3%
Insurance and Taxes	200.84 or	.4%
General Expenses	150.63 or	.3%
Depreciation and Shrinkage	301.27 or	.6%
Bad Debts	150.63 or	.3%
Total Expense	$8,834.58 or	16.4%

A SMALL CASH GROCERY

It is natural that among groceries handling for cash only a trade drawn from modest incomes investigation should fix an expense percentage – 14.77 per cent – below the average. These figures from a city store represent this type of grocery. Note (1) that there is no delivery expense or loss from bad debts; (2) that a good location is, however, rented.

Rent	$ 291.92 or	2.7%
Salaries	1,048.76 or	9.7%
Advertising	21.62 or	.2%
Heat and Light	32.44 or	.3%
Delivery		
Supplies	21.62 or	.2%
Insurance and Taxes	43.25 or	.4%
General Expenses	21.62 or	.2%
Depreciation and Shrinkage	86.50 or	.8%
Bad Debts		
Total Expense	$1,567.73 or	14.5%

LARGE CREDIT GROCERY

Investigation also supported the accepted conclusion that, when groceries sell on credit to an exclusive trade, their expenses run above usual levels. These expenses, paid by a city store, typify the average – 18.97 per cent – found for this class of groceries. Note (1) the rent; (2) the wage total; (3) the delivery expense.

Rent	$ 2,009.10 or	2.7%
Salaries	6,771.40 or	9.1%
Advertising	595.29 or	.8%
Heat and Light	223.23 or	.3%
Delivery	2,232.33 or	3.0%
Supplies	297.64 or	.4%
Insurance and Taxes	223.23 or	.3%
General Expenses	595.29 or	.8%
Depreciation and Shrinkage	744.11 or	1.0%
Bad Debts	595.29 or	.8%
Total Expense	$14,286.91 or	19.2%

VEHICLE STORE COSTS

Here is the percentage pointed by the investigation as the average cost of doing a vehicle and implement business in the United States. Note (1) that this cost is second above the lowest fixed – the average for mail order houses (15.02 per cent); (2) that salaries are proportionately high because sales are not large enough, individually, to counterbalance their infrequency.

Rent	2.12%
Salaries	9.41%
Advertising	1.22%
Heat and Light	.51%
Delivery	1.06%
Supplies	.42%
Insurance and Taxes	1.04%
General Expenses	.71%
Depreciation and Shrinkage	.62%
Bad Debts	.33%
Total Percentage of Expenses to Sales	17.44%

AN AVERAGE VEHICLE STORE

These figures are from the books of a store selling $57,600 worth of vehicles and implements annually in an eastern city of thirty-three thousand. They total to within one per cent of the average for the country given to the left.

Rent	$1,094.63 or	1.9%
Salaries	5,818.81 or	10.1%
Advertising	633.73 or	1.1%
Heat and Light	345.67 or	.6%
Delivery	518.51 or	.9%
Supplies	230.45 or	.4%
Insurance and Taxes	460.90 or	.8%
General Expenses	230.45 or	.4%
Depreciation and Shrinkage	403.28 or	.7%
Bad Debts	115.22 or	.2%
Total Expense	$9,851.65 or	17.1%

girl who could satisfactorily trim hats would work for three dollars a week then. Purchases were wrapped in old newspapers, costing ten cents a package, and customers not only were willing to wait their turn to buy, but carried home what they bought. Two dollars spent for printing and circulating an annual announcement card covered advertising expenses; coal could be had for two dollars and a half a ton.

Eben Jordan, founder of Jordan, Marsh and Company, could have recalled an expense percentage of sixteen per cent in his department store, which is now probably glad to handle the largest retail volume in New England at more than one and a half times that cost. About fifteen years ago grocers thought ten to twelve per cent a reasonable expense percentage. Today fifteen to twenty per cent is a fair average. Reports from over seventy per cent of the members of a large association of shoe wholesalers show that their average cost of doing business has risen from eleven per cent in 1905 to thirteen per cent in 1912.

VARIETY STORE COSTS

Typical variety stores in the United States were found to be paying, when averaged, these expenses. Note (1) that rents rank high because good locations are usually demanded; (2) that the advertising expenditure includes "leaders" put on the counters at a loss to attract trade; (3) that, since the turnover is rapid and the cost of doing business low, this line is profitable under a suitable volume and mark-up.

Rent	4.41%
Salaries	8.86%
Advertising	1.52%
Heat and Light	.81%
Delivery	
Supplies	.21%
Insurance and Taxes	.98%
General Expenses	.91%
Depreciation and Shrinkage	.06%
Bad Debts	
Total Percentage of Expense to Sales	17.76%

AN AVERAGE VARIETY STORE

These figures from a variety store in a town of two thousand check well with the average for the country. The sales total about eleven thousand dollars a year. Note (1) that there are no delivery charges and no losses from defaulted debts; (2) that this store can net fifty per cent on the investment under a net mark-up of twenty-three per cent through ten turnovers.

Rent	$ 451.49 or	4.1%
Salaries	980.07 or	8.9%
Advertising	165.18 or	1.5%
Heat and Light	19.11 or	.9%
Delivery		
Supplies	22.02 or	.2%
Insurance and Taxes	99.11 or	.9%
General Expenses	55.06 or	.5%
Depreciation and Shrinkage	11.01 or	.1%
Bad Debts		
Total Expense	$1,803.05 or	17.1%

Here is a comparison of the costs of doing business during 1883 and 1913 in a small department store which has made money for over thirty years in a city now rapidly growing out of the twenty-five thousand class:

	1883	1913
Rent	1.9%	3.2%
Salaries	5.3%	9.1%
Advertising	.9%	1.5%
Heat and Light	.3%	.5%
Delivery	....	1.6%
Supplies	.2%	.4%
Insurance and Taxes	.5%	1.1%
General Expenses	.2%	.4%
Depreciation and Shrinkage	.6%	.9%
Bad Debts	....	.2%
	9.9%	18.9%

Many reasons may be assigned to explain these rising costs—competition, constant changes in styles, diversified stocks and dozens of other causes. Whatever the reason, the method whereby any merchant may get on a

HARDWARE STORE COSTS

This is the standard cost of retailing hardware in America as fixed by analyses of typical stores in Canada and the United States. Note that the business takes healthy net profits but does not secure as many sales as stores handling lines involving lower average costs. Reports indicate that often concentration on profitable repairs results in dingy hardware selling floors and lost sales.

Rent	3.41%
Salaries	10.11%
Advertising	1.12%
Heat and Light	.43%
Delivery	.91%
Supplies	.60%
Insurance and Taxes	.99%
General Expenses	2.01%
Depreciation and Shrinkage	.52%
Bad Debts	.31%
Total Percentage of Expenses to Sales	20.41%

AN AVERAGE HARDWARE STORE

In an Indiana town of about five thousand a hardware store with sales of forty-five thousand dollars a year pays these expenses, which are remarkably close to the standard. Note (1) that salaries are excessive because sons of the owners work in the store at abnormal wages; (2) that the losses from bad debts are unusually high.

Rent	$1,305.61 or	2.9%
Salaries	5,042.35 or	11.2%
Advertising	405.20 or	.9%
Heat and Light	225.10 or	.5%
Delivery	270.13 or	.6%
Supplies	180.08 or	.4%
Insurance and Taxes	495.23 or	1.1%
General Expenses	360.17 or	.8%
Depreciation and Shrinkage	225.10 or	.5%
Bad Debts	180.08 or	.4%
Total Expense	$8,689.05 or	19.3%

firm foundation and keep ahead of rising costs is clear. Each individual must know accurately his costs of doing business. He must find, by such carefully collected and averaged figures as are here given, just what these standards of cost may be expected to be under present conditions. Not until then can he work intelligently with the reasons.

The charts given in these pages are typical of conditions which affect today every distributor of a product—manufacturer, jobber, retailer. Here are average costs. What is to be done about them? How do they grow—can they be reduced?

They grow because the entire course of distribution is changing. Producers, jobbers and retailers are making over their methods in the effort to keep up with business expenses. The retailer attempts to sell out his stock a number of times at the dwindling net profit in order to secure the one long profit which could be taken twenty-five years ago on a single turnover. To do this he must

CLOTHING STORE COSTS

This average cost of selling clothes at retail in the United States was set by the investigation's analyses of actual figures from all sections of the country. Note that stores in large cities, for which a separate cost standard of 30.12 per cent was fixed, are not included; (2) that the advertising expenditure is the highest scheduled in the standards, if furniture and department stores are excepted.

Rent	3.04%
Salaries	9.49%
Advertising	3.16%
Heat and Light	.62%
Delivery	.65%
Supplies	.43%
Insurance and Taxes	1.07%
General Expenses	2.31%
Depreciation and Shrinkage	2.16%
Bad Debts	.34%
Total Percentage of Expenses to Sales	23.27%

AN AVERAGE CLOTHING STORE

This cost of doing business is paid by a clothier in the middle-west who secures annual sales of sixty thousand dollars. Note (1) that the rent is low because an entire building was leased and improved until space not needed for selling could be subleased at a profit; (2) that the cost of heating is reduced by supplying tenants; (3) that these savings are thrown into the advertising appropriation.

Rent	$ 1,322.24 or	2.2%
Salaries	5,469.29 or	9.1%
Advertising	2,043.47 or	3.4%
Heat and Light	180.31 or	.3%
Delivery	360.61 or	.6%
Supplies	120.20 or	.2%
Insurance and Taxes	661.12 or	1.1%
General Expenses	1,081.84 or	1.8%
Depreciation and Shrinkage	1,322.24 or	2.2%
Bad Debts	240.41 or	.4%
Total Expense	$12,801.73 or	21.3%

buy frequently in small quantities, instead of once or twice a year. Wholesalers are forced to become practically retailers on a large scale. "The druggists are now sending in orders for dozens in lines which they formerly bought by the case," says a partner in a middle-western wholesale house. "We, therefore, have to carry our stock in a different way and go to considerable added expense for rehandling. If this development continues, our concern will be nothing more than a large retail drug store." The manufacturer, warned of changing conditions by the jobbers, no longer makes goods far ahead to store them for demand, but fits his production to the call for frequent small orders.

Fixtures, service and increased stocks add to the retailer's cost. Behind him are the manufacturer and jobber. In many lines the manufacturers have turned to styles as a competitive weapon and constantly bid for trade with new designs. This means more machinery, more labor, more overhead. And the jobbers, as has been

DRUG STORE COSTS

Costs of doing a retail drug business were averaged to this standard. Note (1) that, if department, furniture and jewelry stores are not considered, higher rents are paid than in any other standard retail activity; (2) that soda fountain profits normally make it possible to pay the high rents; (3) that many specialties not connected with old line drug stocks are now used to build net returns above the rising expenses.

Rent	4.02%
Salaries	10.95%
Advertising	1.76%
Heat and Light	.69%
Delivery	.51%
Supplies	.36%
Insurance and Taxes	1.21%
General Expenses	4.49%
Depreciation and Shrinkage	.47%
Bad Debts	.19%
Total Percentage of Expenses to Sales	24.65%

AN AVERAGE DRUG STORE

The expenses here itemized are paid by a druggist who handles annual sales of twenty thousand dollars in a middle-western city. They are close to the average for the country, given to the right. Net gains from the soda profit are sufficient to care for the $924.65 spent for rent.

Rent	$ 924.65 or	4.6%
Salaries	2,191.01 or	10.9%
Advertising	522.64 or	2.6%
Heat and Light	160.81 or	.8%
Delivery	80.40 or	.4%
Supplies	60.30 or	.3%
Insurance and Taxes	281.41 or	1.4%
General Expenses	482.42 or	2.4%
Depreciation and Shrinkage	100.50 or	.5%
Bad Debts	40.20 or	.2%
Total Expense	$4,844.34 or	24.1%

shown, now carry stocks so diversified that their total purchases in 1880 would not fill out some single lines bought to present standards.

So much for the way in which costs are increasing and the changes in trade which follow in the wake of rising costs. More important to the man who is paying rent and hiring clerks is the question of how to reduce the cost of doing business.

First, all must agree—stop guessing.

Retailers go to the sheriff at the rate of thirty a day because they guess. Here are the proportions of the retailers in three places who are actually guessing today about their cost of doing business:

Town of 5,000 (Indiana)	95%
City of 30,000 (Illinois)	39%
City of 26,000 (Illinois)	29%

Dealers in towns and cities of this size sell over two billion dollars' worth of merchandise every year; and their competition, a large percentage of it based on

FURNITURE STORE COSTS

The standard here given is the average found after analyzing the cost of retailing furniture in the United States. Note (1) that the bulky nature of the stocks drives rent higher than in any other itemized national average, those for department and jewelry stores excepted; (2) that general expenses are unusually heavy, partly on account of the incidental repairing necessitated by poor packing.

Rent	5.04%
Salaries	9.73%
Advertising	2.72%
Heat and Light	.92%
Delivery	.94%
Supplies	.41%
Insurance and Taxes	1.57%
General Expenses	1.10%
Depreciation and Shrinkage	2.14%
Bad Debts	1.94%
Total Percentage of Expenses to Sales	26.51%

AVERAGE FURNITURE STORE

These figures from a store which sells one hundred thousand dollars' worth of furniture a year in the south are typical of the average established for the line in this country. Note that the loss from bad debts is the heaviest encountered among the costs here assembled from stores operating under normal conditions.

Rent	$ 5,511.56 or	5.5%
Salaries	8,317.60 or	8.3%
Advertising	2,906.15 or	2.9%
Heat and Light	801.70 or	.8%
Delivery	1,102.33 or	1.1%
Supplies	501.06 or	.5%
Insurance and Taxes	1,402.97 or	1.4%
General Expenses	1,803.82 or	1.8%
Depreciation and Shrinkage	1,904.03 or	1.9%
Bad Debts	1,202.54 or	1.2%
Total Expense	$25,453.76 or	25.4%

guesswork, helps set prices. If they sell a shirt for two dollars and guess they make a dime, but really lose three cents, every other retailer has to meet their price and attempt to make up the loss elsewhere. The owner of one of the most extensive shoe factories in this country believes that a majority of the dealers in shoes at retail would be found insolvent if expert accountants were to go over their books.

GUESSING *at costs partly explains why merchants complain that, when the year is over and the balance struck, profits are smaller than they anticipated.*

There are two reasons for this continued guesswork which endangers the retailers' profits and leaves the jobbers or manufacturers in the dark about the distribution expenses to be covered in over-the-counter prices. First, nine retailers out of ten refuse to talk freely about their sales and expenses. Second, the run of retailers find it difficult to figure overhead charges

JEWELRY STORE COSTS

Jewelers, investigation showed, pay the highest average retail expenses, if some of the largest department stores are overlooked. The standard is here given. Note (1) that the turnovers secured under these high costs are slow; (2) that, therefore, net profits are often unsatisfactory, even when heavy net mark-ups are realized; (3) that, hence, safe novelties and healthier returns from repairs are needed.

Rent	4.98%
Salaries	10.96%
Advertising	2.85%
Heat and Light	.61%
Delivery	.09%
Supplies	.89%
Insurance and Taxes	1.32%
General Expenses	3.95%
Depreciation and Shrinkage	.95%
Bad Debts	.21%
Total Percentage of Expenses to Sales	26.81%

AN AVERAGE JEWELRY STORE

In Kansas one jeweler's books show these expense payments. There is not an item in which they vary from the national average by more than two per cent. An Indiana jeweler has cut his payroll to five per cent by advertising his repair bench and dividing the clerks' time between it and the counters.

Rent	$1,080.40 or	3.6%
Salaries	3,361.23 or	11.2%
Advertising	1,050.38 or	3.5%
Heat and Light	180.07 or	.6%
Delivery	30.01 or	.1%
Supplies	270.10 or	.9%
Insurance and Taxes	540.20 or	1.8%
General Expenses	630.23 or	2.1%
Depreciation and Shrinkage	360.13 or	1.2%
Bad Debts	90.03 or	.3%
Total Expense	$7,592.78 or	25.3%

and apportion them among lines. They know the invoice cost, the freight charges, and the clerk hire total, but get into trouble when it comes to calculating general expenses and figuring charges to capital.

If to stop guessing is the first step in the way to reduce the cost of doing business, the second is to make comparisons with standards. A mass of statistics is presented in table form in this chapter. Retailers in the several lines may compare their costs with the averages and with the actual costs in the stores chosen.

In making any of these comparisons it is of course necessary that each retailer know his own expenses. The stock he buys probably all comes in through the back door of the store; there is one entrance for it and one place for sorting and checking it. He must put the same degree of restriction around the money he handles in the store. He must see that it gets out of the cash drawer in but one way—through an expense account carefully classified. By thus scheduling his costs and

COSTS FROM A JEWELRY DEPARTMENT

This is a department in a large department store in the east. The rate of turnover is about twice as high as any reported from individual stores. The net profit on each turn is lower, however, and the costs higher.

Rent	$20.184.64	5.6%
Salaries	35,683.56	9.9%
Advertising	14.778.04	4.1%
Heat and Light	3.243.96	.9%
Delivery	3,964.84	1.1%
Supplies	5.046.16	1.4%
Insurance and Taxes	2,883.52	.8%
General Expenses	15,498.92	4.3%
Depreciation and Shrinkage	6.127.48	1.7%
Bad Debts	360.44	.1%
Tota Expenses	$107,771.56	29.9%

COSTS FROM A WHOLESALE JEWELRY STORE

This is a prosperous wholesale jewelry business situated west of the Mississippi river. It is probable that this cost of doing business is higher than in the majority of lines at wholesale.

Rent	$ 3,600.99	.9%
Salaries	36,410.01	9.1%
Advertising	1,600.44	.4%
Heat and Light	3 600.99	.9%
Delivery	3,200.88	.8%
Supplies	6,401.76	1.6%
Insurance and Taxes	2,800.77	.7%
General Expenses	8,402.31	2.1%
Depreciation and Shrinkage	3,200.88	.8%
Bad Debts	3,600.99	.9%
Total Expenses	$72,820.02	18.2%

thinking out the conditions under which he sells goods, he will strike upon the one paying way to get quality, volume and profits pulling together in his locality. The lines which yield the most will become evident. One retailer, when he got these facts, discovered that he could put his business to work on an "allowance." He treated it like a son going away to school, and permitted it to spend for expenses only a reasonable amount. Most important of all, he saw that it accounted to him regularly and accurately for its expenditures.

After the figuring of these detailed costs of doing business becomes a part of his routine work, the retailer will find that the keeping of them is more than a mere policy. The use of accurate costs is in fact a principle—a necessary doctrine which if avoided either retards normal growth or brings about bankruptcy. John Bellaire of Blaney says that the lack of accurate knowledge of this sort cost him thirty thousand dollars. He paid the price and now his store nets a fat profit every year. Use the averages here given to find where you

SHOE STORE COSTS

This is the itemized average cost of retailing shoes set for the country by the investigation. Note (1) that rents are high; (2) that salaries are also heavy, proportionately. These conclusions, therefore, follow: (1) that, under normal mark-ups, net profits are weak; (2) that, hence, your success demands closer buying in styles, frequent re-ordering of in-stock lines, and less idle time.

Rent	3.21%
Salaries	10.51%
Advertising	1.65%
Heat and Light	1.10%
Delivery	.46%
Supplies	.30%
Insurance and Taxes	1.03%
General Expenses	4.36%
Depreciation and Shrinkage	.50%
Bad Debts	.10%
Total Percentage of Expenses to Sales	23.22%

AN AVERAGE SHOE STORE

These figures from a New England shoe store fit the average closely. Three and one-half turnovers are made under a mark-down loss of about nine per cent. Therefore, the owner is forced to realize through the stock a mark-up close to thirty-five per cent in order to get a sound net profit.

Rent	$ 778.13 or	3.1%
Salaries	2,786.21 or	11.1%
Advertising	376.51 or	1.5%
Heat and Light	225.91 or	.9%
Delivery	75.30 or	.3%
Supplies	100.40 or	.4%
Insurance and Taxes	301.21 or	1.2%
General Expenses	1,029.14 or	4.1%
Depreciation and Shrinkage	150.61 or	.6%
Bad Debts	25.10 or	.1%
Total Expense	$5,848.52 or	23.3%

stand, next fix percentages for your business and then get it into the running. If possible cooperate with the other dealers in your town and see that they are not sapping common gross profits by using mark-ups which do not make a fair allowance for the rising cost of doing business. C. J. Ricker, in Emporia, and Gorton Rushmer, in Pueblo, for example, have interested their fellow retailers in cooperation to the benefit of the profits of all.

The averages that are given on pages 20 to 30, when studied in connection with the chart on page 31, enable the manufacturer also to cross-section the distribution of his product. Since rising costs are leading the retailer to buy small lots, manufacturers are faced with new equipment and supply problems in their efforts to handle orders smoothly. Deliveries become of the greatest importance. In order to secure quicker shipments, the larger stores are either building factories or guaranteeing entire capacities. Marshall Field and Company, Wanamaker and Filene are making many of

the lines they sell. The small retailer can be shown through salesmen that quicker deliveries mean more equipment and be told of the manufacturers' efforts to adjust their plans to the new demands. As one manu-

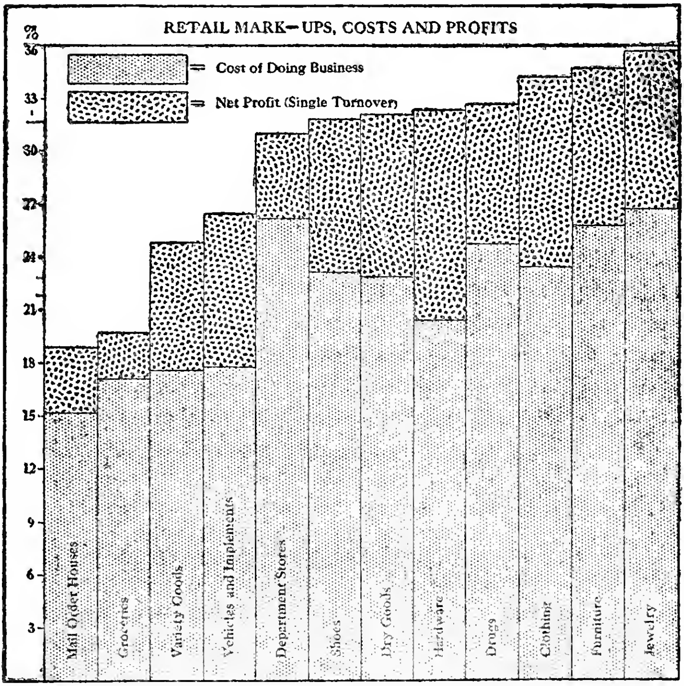


FIGURE II: This chart shows gross mark-ups, the averages of figures from 579 concerns, divided into costs and net gains. Since only one turnover is represented, the net profits on the retailers' investments are not included

facturer puts it, ask the retailer to buy only the styles his market demands; guard him against overstocking.

Another manufacturer finds it profitable to send a cost accountant once a year to each retailer represented

on his books. In this way he anticipates conditions typified by the experience of an Indiana clothier who had been buying a standard line of hats direct from the maker, usually about two thousand dollars' worth at the beginning of a season. A strike closed the factory recently and deliveries could not be made. Therefore, this retailer placed a small hat order—$256.25, to be exact—with a jobber. To his surprise, he found that this supply handled his demand nicely, until, the strike continuing, he could duplicate it from the jobbing house. He then saw eight turnovers where he had secured one before and eight times his former profit on the investment. Now the manufacturer, to hold his trade, is forced to handle his business in small lots.

Further, if it is agreed that prices are to be wisely set for the counters at the factories, manufacturers can protect their interests by knowing what it costs to retail their products. Salesmen may help retailers who are guessing. It is the man with his expenses well in hand who safely takes up the precarious game of price cutting, for his profits are partly possible because some of his competitors are guessing in their costs on lines and taking too heavy a profit on those which turn quickest. He, often seeing that a narrow profit will still give a net gain because of the rapid turnover, cuts a fixed price. Many a small retailer has lost his savings and destroyed one of a manufacturer's outlets for the want of standards against which to check his expenses, or the advice of a man able to take a trial balance.

Many a wholesaler, too, will profit by a closer knowledge of exact costs of doing business in his trade. One large Chicago jobbing house recently met a retailer's demand for small shipments by rearranging the stock rooms for quick order filling. They also explained to the

merchants through their salesmen that small orders cost them more to handle and that returns resulting from poor buying are expensive.

Ask the retailer to know his cost so that your lines

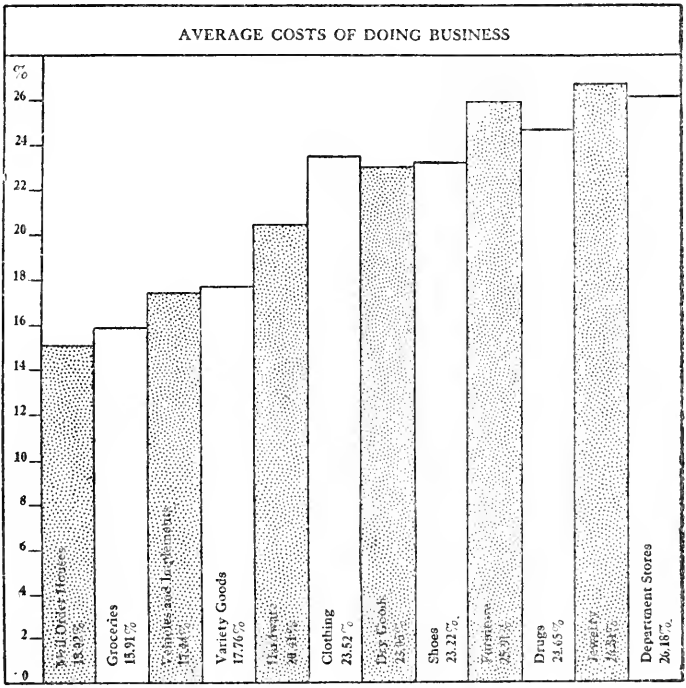


FIGURE III: Comparison of this chart of costs with that on page 31 demonstrates that department stores, purchasing for rapid clearances, profitably overcome high costs by taking small net gains on numerous turnovers

can have a fair showing when profit-figuring time comes round. Credits may be protected by helping the retailer to a knowledge of what they cost. Several manufacturers have cost bureaus, and there is no reason why the

work cannot profitably be undertaken by the wholesaler. He can assist the storekeepers who order from him by placing at their service the advice and knowledge of his staff for working out profits or costs. One of the largest wholesalers in the country has an office given over entirely to work of this nature.

Finally, the keenest weapon at hand for use against rising costs is cooperation of manufacturer, middleman and retailer. The prosperity of one is impossible if the other two are not making a fair profit. The conditions which are continually driving costs upward demand common consideration until an adjustment fair to all is reached. The sellers of groceries at wholesale and retail are already in consultation, and the manufacturers, wholesalers and retailers of shoes have come together through their national organizations. By such affiliations for the interchange of opinions and facilities within reasonable limits will the business men of the country who make or handle goods be able to adjust themselves more quickly to the difficult present-day task of securing fair gains with reduced net sales profits.

PART II

WHAT IT COSTS TO SELL THE GOODS

III

THE COST OF MAKING SALES

READJUSTMENTS are taking place in policies and methods of distributing goods. In certain directions the wholesaler sees his importance diminishing. Just as evident is the tendency on the part of the metropolitan merchant to make his own goods. And in another field some retailers think they are losing out against the chain store or direct selling.

Every owner and manager realizes these conditions. The wholesaler gets small lot orders, the manufacturer with private brands confronts substitution and price-cutting, and the retailer struggles with style changes. The problem is broader than business. It touches the pocket book of the individual consumer. It is interwoven with standards of living and the economic development of the United States.

The one big, tangible fact underlying all this unrest in distribution is rising costs. Everyone knew costs were rising. Many had records within their own concerns which helped them hold down their costs. But few could see these standards in comparison with those of other owners and managers in the same and different lines. Now that a group of such standards has for the first time been brought together, salaries and wages show as the highest single items in every line covered by an

investigation which has tabulated the actual costs in nearly one thousand retail establishments. Naturally, therefore, examination of this item of help, as compared with reasonable averages, has been fruitful of savings and increased sales effectiveness in many stores.

Losses of supplies and stock worth $439.34 from each clerk's routine work were recently discovered by John I. Bellaire after he had carefully tabulated a year's leaks in his store at Blaney, Michigan. By re-weighing typical sales without warning, and establishing the most economical standards for the use of supplies, he found that an eighteen-dollar-a-week man was destroying profits equal to forty-five per cent of his wages. Overweights in the everyday grocery lines had cost Mr. Bellaire $375.38. For instance, his average salesman, according to estimates based on the losses fixed by the re-weighings made at random, gave away sugar invoiced at $19.50, tea worth $78.00 and coffee valued at $58.40. Each man also used about a pound more of wrapping paper a day than was necessary. This loss cost, at three and one-half cents a pound, $10.92 during the year. The use of paper bags too large for purchases took $21.84, and excessive generosity with twine added $31.20 to the total.

That by actual count in this going store wasted twine and extra half ounces should bulk into hundreds of dollars within a year, demonstrates that after all profits depend largely upon the cooperation of employees. The pay of salesmen in over a thousand stores marketing twelve standard classes of products averages 8.87 per cent of the sales—the largest single item in the cost of doing business at retail. More important than this, however, is the fact that the salesmen handle the goods and put them into the customers' hands. They work with the four storekeeping requirements which measure the

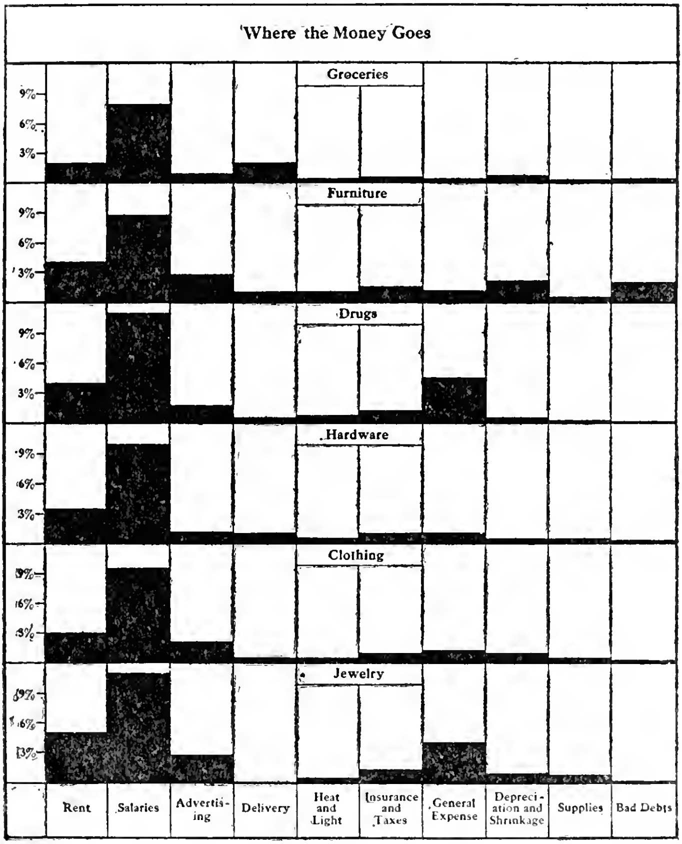


FIGURE IV: That businesses are all very much alike is shown by this chart of itemized average costs in six standard lines. Rent, salaries, and advertising in every case take the major portion of the expenditures

retailer's profits—stock, supplies, time and service.

The salesman who stands behind a counter and hands customers what they ask for may often be replaced to advantage by a mechanical contrivance; the man who

THE RIGHT INTRODUCTION

Saleswoman (turning from her last customer to the woman who should be served next): "Good morning" (waits for customer to speak).

Customer: "I want a suit."

capably advises the purchaser, actually merchandises the small bit of the store's stock placed in his control, and in other ways gives life to the service which his employer advertises, cannot safely be displaced.

Which of these two types his store is to have rests largely with the retailer himself. He hires his men and is responsible for their training. He may either freely use the experience of others who have studied the handling of men, or check his clerks against actual losses like those discovered by Mr. Bellaire.

Investigations recently made among retailers in four states show that they are using, either consciously or unconsciously, common methods in working out this responsibility for getting more profit out of their salesmen. Men employing thousands and men paying off only one or two on Saturday night agree that to secure the best results from a salesman he needs to be given the right attitude toward three fundamental conditions. These merchants expressed their ideas in different words, but the underlying thoughts always centered on the same three conditions.

The first condition, giving the salesman an idea of what is going on in the store, was strongly emphasized

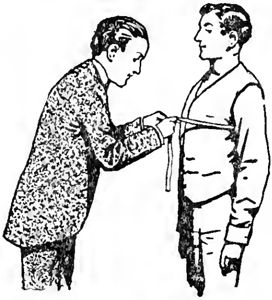
THE WRONG INTRODUCTION

Salesman: "What may I do for you today?"

Customer: "Nothing in particular—I'll just look around."

by one of four brothers who have made an Indiana store pay well for over half a century. "I take everybody in the store into my confidence in regard to sales and profits," he says. "Of course, I only do it in a general way, but I go far enough to make each one understand that I want to make a manager of him some day. I tell them about the store policy and in that way stir their ambition. I also tell them about the advertising and ways to meet mail-order competition.

"Every human being has a desire to accomplish something and I make use of that desire. My clerks are just naturally careful when I explain the effect losses will have on their own wages, if carried too far, and demonstrate that I am ready to overlook mistakes not of the heart. If I make changes I talk over the conditions with them. They always help me buy and mark the goods. Therefore, they know about the stocks and why the prices are right. They pass along part of this knowledge to my customers. Only the other day I overheard the clerk at the far counter explaining to a customer that because there are ten picks in our carpets they will wear longer than usual. He got hold of that fact when I had him in to talk to the wholesale carpet



THE RIGHT DISPLAY

Salesman: "Have you any particular desires—say in color, style or material?" (Studies character of customer and secures size with tape measure, so as to avoid stocks which do not include the size.)

Customer: "I haven't decided, but I like blues with pencil stripes."

salesman. Our selling wages are under five and a half per cent of our sales and it's largely because we get close to our people and let them know what's going on in the store."

That the clerks need to understand their responsibility is the second condition declared to be fundamental. The owner of one of the largest stores in Indianapolis noticed some imported match safes in his bargain basement. He had last seen them in the jewelry department. He examined one of the safes and failed to find a place for striking matches.

"Where do you suppose they scratch the matches?" he asked the girl at the counter.

"I don't know," she admitted. "Anyway, they do not sell very well."

The assistant merchandise manager, when called to the counter, was himself unable to show how matches could be struck on the imported safe. Finally, the proprietor found a catch which opened a vise-like attachment designed to make striking the matches less troublesome.

"Later at a meeting I told our entire sales force about that match safe," he says. "I explained that the selling

THE WRONG DISPLAY

Salesman: "Here are some of the newest coats."

Customer: (After trying on several coats.) "Have you anything in blue with stripes?"

point had not been discovered and thereby mark-downs resulted, until finally the goods landed in the bargain basement.

"The incident gave me an opportunity to impress on the clerks their responsibility. I think no retailer should overlook a chance to do likewise. I tell my people that they practically control the fate of the store; that a lost sale often means the loss of many future sales that might be made to the customer. I put just as much responsibility on the clerks as they can carry and try to increase their capacity for it.

"I make them understand that I expect them to keep our mailing lists live and add customers to our books. I show them that they are valuable distributing agents, personally representing me. Every now and then I recall to them that Marshall Field once worked behind a counter. I give them cards carrying a motto like: 'Don't wait to be told—think.' Of course I remember that most of my clerks have not the same point of view on my business that I have, but I make it clear that it is to their advantage to represent the house in every way."

The third of the conditions found helpful in making clerks worth more prescribes that they be materially

THE RIGHT CLOSE

Saleswoman: (Customer has purchased.) "Would you prefer to have the hat delivered, or would you like to have it at once, by taking it with you?" (Emphasizes last seven words in order, if possible, to reduce delivery expenses and still satisfy the customer.) "There are some new suits which go well with this hat. If you like, I'll go with you to the suit department."

Customer: "Thanks, I'll take a glance at them."

interested in the store's profits. This is usually done by giving them some of the profits in forms other than wages, such as bonuses, percentages and commissions, or a direct share of the net profits. An Iowa shoe store has cut 1.7 per cent off the cost of doing business by paying the salesmen ten dollars a week and a commission of from five to ten per cent on their sales, instead of from fifteen to twenty-five dollars a week as straight wages. A Minnesota dealer raises the pay of his men arbitrarily until they have been with him five years and after that gives them one per cent of their sales. He has the veterans out to his home on Christmas day to get their percentage checks. One of the largest stores in Boston divides half of the net profits among the employees and Frank M. Low is working out the same plan in his shop at Portland, Maine.

Getting the most out of clerks, after the three fundamentals of store knowledge, responsibility and profit have been cared for, becomes largely a matter of fair dealing. The canvass of retailers in several states showed that they consider it wise carefully to avoid any appearance of paternalism. They tell their employees that they are glad to hire them and want them to be glad

THE WRONG CLOSE

Salesman: (Gives his attention to rearranging the stock, rather than to the customer who has purchased.) "Anything else today?"

Customer: (Who is waiting to have the purchase wrapped.) "No, I guess not."

to take the work. They use every opportunity to encourage clerks to hand in suggestions or come to an executive with complaints. They avoid discouraging employees or reprimanding them before others. Eighty-six per cent of these merchants stated that they prefer, when possible, to mold their men instead of hiring them "ready made," because previous experience may have been secured from one or another of the generous proportion of retailers who fail. Without an exception they familiarize themselves closely with the work they expect the clerks to do; treat their selling force with the consideration they themselves would desire from superiors; and make the work of the cheapest employees largely routine.

Is it possible to figure what percentage of his sales a clerk should cost, handled according to these successful methods? Not unless individual conditions are carefully considered. For instance, a shoe salesman is known to have sold thirty thousand dollars' worth of shoes a year at a very expensive location in New York. Yet two men and a boy sold at the rate of $194,000 a year, one half on charge accounts, in a little "woods store." But it took them from fourteen to sixteen hours a day. Another

THE RIGHT LEAVE-TAKING

Salesman: (Customer has purchased a flashlight.) "You will probably be interested in our new sporting goods department. If you'll give my card to one of the sporting goods salesmen, he'll be glad to show you about. If you'll just let me, I'll be glad to 'phone you a day or so before new attractions arrive." (Obtains 'phone number.)

Customer: "Thanks."

country store by keeping open until eight at night sells $65,000 worth of stock a year with one girl to help the owner, while it requires six men to handle trade worth $120,000 in a neighboring city. A thousand miles from the city where these six men work, two men are selling within five thousand dollars of their record at a sales expense of only 5.5 per cent.

Therefore, it is impossible to say that a certain silk salesman should be paid, let us say, seven per cent of his sales. But it is possible to fix general averages for the selling expense in various lines and to find for comparison the cost of handling a yard of silk in any particular store. It is possible to show that the most meagre salary may be the most expensive on the payroll and that the salesman who is paid heaviest in proportion to sales is doing the most to guard the store's reputation, watch its stock and preserve neatness. A New England department store owner paid until last year only $35 a week to a buyer in charge of an investment of $35,000. At the suggestion of a shoe manufacturer he hired a man worth the $50 a week he asked. The sales increased 16.5 per cent.

The comparison of entire store payrolls from all over

THE WRONG LEAVE-TAKING

Saleswoman: (Customer has purchased and given directions for delivery.) "Good day. Drop in again."

Customer: "Good day."

the country with resulting sales may usually be relied upon to counteract individual circumstances. Standards secured in this way, for instance, supply a basis upon which it is possible to estimate the direct cost of selling under normal conditions. To take an example, investigation establishes six per cent of the sales as a standard selling payroll for large stores in New York, Chicago and Boston. However, it would be unfair to discharge a clerk in one of these cities as too expensive because his wages took ten per cent of his sales unless a close examination of his record had been made. He might be selling a small amount of stock but a great deal of service leading to repeat orders. Again, he may not have been handled according to the three fundamental conditions believed by the merchants in four states to underlie the most satisfactory results from a selling force. Nevertheless, at least one merchant has determined that if the entire sales payroll in his store runs over eight per cent, danger is ahead in nine cases out of ten.

Investigation indicates that this six per cent standard direct selling expense applies to the department stores of the country as a general class, although the smaller sales volumes encountered in the more modest firms drive

the average up to 6.52 per cent. This is the lowest percentage set for retail sales payrolls, if mail order houses doing most of their selling through catalogs are excepted. Mail order concerns average their selling expense at 3.32 per cent of their sales.

In department stores the relation between sales and the wages paid to clerks varies with the size of the cities and the nature of the stocks. For instance, here are percentages for an annual sales volume of $225,000 in a city of twenty thousand compared with corresponding facts from a store selling over $18,000,000 worth of merchandise a year in one of the three largest cities in the country:

Department	Small City	Large City
Carpets	16%	8%
Corsets	5.5%	5%
Hosiery	6.5%	6%
Toilet goods	6%	7%
Gloves	6%	6%
Jewelry and leather goods	9%	7.5%
Notions	10%	9%
Dress goods	10%	9%
Millinery	11%	9%

It is natural that wages for selling should also be low in proportion to sales in grocery stores and variety shops because these lines are characterized by very frequent small sales. Wages of clerks in groceries, investigation showed, average 8.46 per cent of the sales and 8.86 in variety shops.

In the southwest, for instance, there is a variety store owner who averages sales amounting to $60 a working day and hires only three helpers. Girls earning from three to five dollars a week in his store regularly average daily sales of from twelve to sixteen dollars a day.

For implements, vehicles, clothing and dry goods, the

direct selling expense runs higher. The standards which investigation set for these three lines—9.41 per cent for vehicles and implements, 9.49 for clothing and 9.65 per cent for dry goods—are neither notably high nor low.

Local conditions, of course, frequently make it possible to secure percentages below these standards. There is a small dry goods store in an Indiana town of five thousand which annually markets close to $25,000 worth of merchandise with a wage expense of 7.5 per cent. The owner draws twenty dollars a week for his share in the selling and pays a man six dollars a week and two girls five dollars each.

WHEN *the payroll grows too large the merchant needs to know two things: how much too large it is and just how other men have overcome the difficulty.*

The cost of the sales force exceeds ten per cent of the sales in four lines comprising a group which includes the highest retail selling wages in proportion to the trade secured. Retailers of hardware, investigation established, spend 10.11 per cent of their sales to pay salespeople; shoe distributors 10.51 per cent; druggists 10.95; and jewelers 10.96 per cent. The unusual relation of behind-the-counter wages to sales in these lines is in part explained by the fact that purchases of hardware, shoes and jewelry are comparatively infrequent. The druggist, on the other hand, makes numerous sales but pays his prescription men more than a usual retail wage. There are many jewelers who spend above the average for store help. They probably shoulder the record retail sales costs. For instance, wages alone cost a jeweler in a town of nine thousand fifteen per cent of his sales.

When the relation of wages to the sales volume

becomes abnormal, as in this jeweler's shop, careful retailers investigate for causes and attempt to secure normal conditions. Since the profitable salesman markets both service and stock, reductions in the proportion of his sales taken by pay are possible either through these two values, which he sells, or the two equivalents of money used by him in making any trade—time and supplies. The retailer, therefore, who finds it necessary to reduce the amount of his sales taken by the payroll, watches goods, time, supplies and service.

He may, as Mr. Bellaire did, check carefully on overweights and the handling of paper or twine. In any but the most carefully made mechanical scales, there is friction at the pivot points when a sale is weighed. Naturally, this friction increases as the load becomes heavier, and must finally be surmounted by the last ounce. Therefore, in order to overcome the friction quickly, there is a temptation to be over generous. When the operating expense mounts far into the gross profits a slight overweight will swallow the entire net profit. For instance, an overweight of one half an ounce on each pound sale made out of a hundred-pound purchase of sugar would reduce to four cents an anticipated net profit of twenty-five cents. Loss of half an ounce on a half pound weighing is equivalent to 6.25 per cent, or very close to the average retailer's profit.

Over measures are overweights applied to yard goods. The majority of retailers instruct their sales forces to pull a thread when cutting valuable bolts, in order to avoid leaks through uneven edges. If there is time, losses as great as those common in pound sales may be saved by requiring precautions when measuring from the cheaper bolts, for cutting by the eye usually means a loss of an eighth of an inch or more. Also, without

the assistance of some means of mechanical computation, there is danger of error in making the hundreds of calculations involving fractions which occur in ordinary price ranges. For instance, between one and sixteen ounces there are eight hundred computations, if the prices range from one to fifty cents a pound or yard, and all but forty-eight of these involve a fraction.

Although watchfulness along these lines often helps the retailer to keep up with rising costs by getting better returns from the sales force, time is frequently more valuable than stock. Furthermore, many merchants believe that the only way left for reducing expenses is to get more done in the same time. In an effort to stop leaks of minutes as well as of goods, they apply to retailing the time and fatigue studies made for the manufacturer. First of all, they eliminate from the clerk's duties all detail that can be handled by cheaper hands. So that attention may be concentrated on moving stock, porters and stock boys do a heavy portion of the work customarily handled by retail salesmen forty years ago. This leaves the clerk free to get new arguments from advertisements, traveling salesmen, study courses conducted by buyers, and inspections of competing stocks. Retailers who plan to eliminate wasted moments explain to their clerks that this freedom from detail places upon the selling force a responsibility for a knowledge of profitable lines, mailing lists, mark-ups, methods for offsetting poor buying, and advanced plans for handling customers.

Time is also frequently conserved by a rearrangement of fixtures or stock. "All you can save on nowadays is time," says a wholesale druggist. "I am fixing over my stockrooms so that the order fillers can sit at desks and direct a lot of boys hired at low rates. Before, they

did the running around themselves. It's up to the merchant to keep his stock arranged so that the salesman can get goods quickly and to supply fixtures which make selling as easy as possible." One eastern clothing house saves salesmen's time by maintaining a card rack which shows the sizes in stock by colors, and a western firm trains the clothing clerks to work in the neighboring shoe section when it is over-crowded.

TIME *and supplies are probably the most important of the equivalents for money handled by employees These methods show how to better the returns from them*

Although it is possible to use successfully these indirect methods for saving valuable moments, it has seldom been found advisable directly to dock clerks for errors or lost time. A New Jersey retailer who has strong views on the advisability of charging employees for wasting time says, "We do not fine our salespeople under any circumstances. They are required to fill out a 'blunder slip' when they make mistakes or arrive late with no reasonable excuse. These slips are tabulated by the employment office for each clerk in such a way that the number of faults of each kind can be shown. We also print in the store paper the numbers of the clerks who have made errors and tabulate mistakes for the entire store. When a clerk goes too far, discharge of course follows if reprimands are not heeded."

Supplies, the third money equivalent handled by the sales force, are usually wasted because clerks do not understand values. To get the most out of salesmen who are wasteful with supplies generally requires only that they be shown the loss, supplied with standards which fix the most economical quantities and offered an incen-

tive for watchfulness. For instance, wrapping paper bills have been reduced 5.4 per cent in a large department store by cutting the paper into standardized lengths and specifying definite sizes for the different lines. In the same store prizes of from thirty to fifty dollars are annually awarded to those of the delivery automobile drivers who show the least expensive repairs. The manager of a small commissary offers attractive pocket knives as prizes for the discovery of new economies, and several hundred stores now maintain suggestion boxes through which clerks may compete for dollar rewards.

Since it frequently costs five dollars to get a new customer through the doors of a store, the clerk is valuable who obtains favorable attention for the service attractions which bring repeat orders when competition is close. In order that better returns may result from the selling payroll, many merchants instruct their clerks in the value of service and urge them to sell it as they would stock. One store in New England, for instance, found that salesmen frequently sold rubbers unsuitable for the customers' shoes. An expert was immediately engaged to analyze the stock and show the clerks which styles of rubbers wore the longest with the various lasts. The salesmen in their turn passed this knowledge on to the customer by explaining that the rubbers could not be expected to wear well if frequently shifted from one style of last to another.

The best reward for efforts to improve the service offered customers often comes, however, through carefully instructing clerks about the goods so that they may offer valuable advice to customers. A large eastern store requires the buyers to hold classes for the clerks in their departments and outline the manufacturing

process and the quality behind each article in stock. When paper felt and asphaltum linoleum came on the market at a new price, the clerks in this store were told how the two grades are made. Thus having at their fingers' ends the processes underlying the construction of the two lines, they were able to advise customers carefully.

Although more attractive returns may be obtained from the total clerk hire by the various methods described, after all the most satisfactory economies result from getting close to the salesmen's ambitions. If clerks are given the same rewards, in proportion to their positions, which satisfy their superiors, loyalty will result. Loyalty brings savings as a matter of course; it gets better returns out of the clerks through unasked efforts. There are more people engaged in selling than in making, more behind the counters than in the factories, and individual economies cheerfully practiced by each would supply savings beneficial, in the aggregate, to the nation. C. C. Jackson, who runs a commissary in Arkansas, has the right idea—he says, "Let your clerks grow. If they can grow to be managers you are that much better off, for you have that much more power in your hands."

IV

HOW MUCH TO PAY FOR RENT

LAND values increase two hundred dollars a square foot between a point about half way down Winter Street in Boston and the crowded corner at Washington Street—only a moment's walk. A chair added to the counter equipment of the corner store uses space worth over a thousand dollars.

During the fall of 1912 a manufacturer of billiard tables took a short lease on this shop, subject to cancellation. His friends believed the rent would swamp him, because comparatively few people are on the market for billiard tables.

He argued that if one passerby out of ten thousand came in, he could make money. Within a week he had taken more orders than the factory could handle conveniently; after two weeks he was forced to cancel the lease because his plant could not fill the orders fast enough.

Rentals supply two needs, a roof and a location. High rents undertake to give a good roof and an unusually favorable location. They justify themselves by duplicating for one line or another this manufacturer's experience with his billiard tables.

Dense crowds are tapped and if among half a million one in a thousand buys, sales are heavier than if a pur-

chaser came from every dozen in a crowd of five thousand. By carrying comparatively small stocks and quickly selling them out clean to large crowds, an average of seven or eight turnovers a year through hundreds of departments may be secured.

When a small net profit is taken on each of these turns a fair net profit on the entire volume is possible at low prices. It is a case of building a big profit with a number of small profits.

Therefore, manufacturers looking for distributing stations or branch house locations and retailers who rent the most expensive locations pit against the high rentals their ability to intensify merchandising until stocks turn quickly. One of them may work with a half million in cash, sell three millions and a half a year, pay the landlord a rent that averages four hundred dollars a business day, and take four per cent net on a turnover. He makes a net profit of twenty-eight per cent, which is more satisfactory than two turnovers at ten per cent.

Since crowds may or may not contain purchasers for certain stocks, these retailers who pay heavily for location run abnormal risks. They undertake to buy for quick turnovers, which is the most difficult task in merchandising, and also to judge the purposes of the thousands passing the store they select.

When a premium is paid to reach crowds that are not prospects, disaster usually follows. A retailer, investigation shows, goes to the wall every other day because his rent does not attract a paying trade.

Within a few blocks of the Boston corner which sold billiard tables faster than four salesmen could fill out contracts, a large department store has not made money. It is off the shoppers' path by less than two thousand

feet. A jeweler who failed to study the crowds passing a busy corner in New York, signed a lease for it at a rental which is one-tenth for roof and nine-tenths for location. Within a week after moving in his stock he found ninety per cent of the passing thousands to be hurried business men, uninterested in jewelry. He is keeping open nights now until ten o'clock in a vain effort to pay his rent, and watching for an opportunity to sublease.

SELECTING *a location is a vital problem. By the methods here described some succeed in low-priced sections while others make good on expensive sites.*

To avoid like blunders, those who make high rentals pay study and number the crowds surging by the stores they plan to rent. The United Cigar Stores Company desires to be near thousands of men; Mr. Childs, who controls a great many restaurants, wants to reach hundreds of hungry people. Both a vice-president of the United Cigar Stores Company and Mr. Childs considered the crowded Boston corner, but decided that the risk was too great for their businesses. Thousands passed, but they were in the majority of instances shoppers, and shoppers may or may not be hungry or smokers. Therefore the corner was cut into a number of small shops which can handle goods interesting to many shoppers.

Now between this corner and the store that has not made money there is a block which rents for much less than the corner and yet taps the stream of purchasers. The man who picked this block for his store quickly made a fortune, bought the first large steam yacht to fly the flag of a Boston club, and continues to secure exceedingly attractive net profits. There are

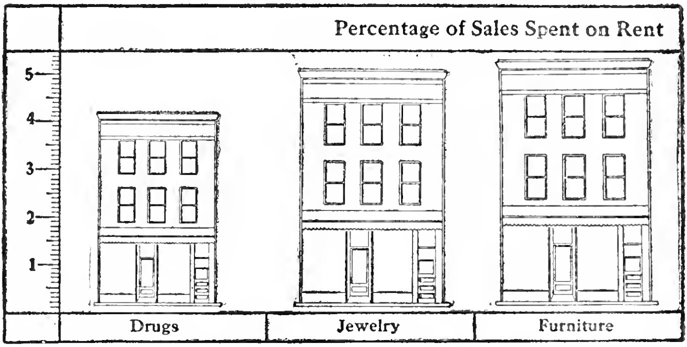
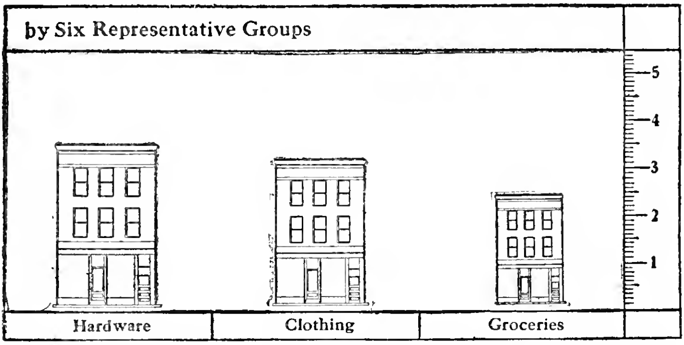


FIGURE V: The stores, when matched against the percentage scales at each end of this figure, represent the average rentals paid the landlord by

corresponding locations in each city or town—stores close to the shopping center which rent at a fair charge for a roof and less than the maximum rate for an opportunity to reach the right crowds.

These shops offer a happy medium between the rapid stock turns required to pay the highest rentals and the sluggish sales volumes obtained at locations that provide little more than roofs.

Therefore, retailers who plan partly to keep up with rising costs by locating favorable rents watch for a chance to lease them. After studying the industries in the vicinity, the resources of the surrounding country, the wealth represented by the banks, the appearance of the streets and the prosperity of possible competition, they figure the advantages of the community itself. Next, after talking with bankers or credit men, they pick locations, and where there is a favorable answer to the question they ask about each vacant shop, "How many have failed here?" bargains are not driven too closely, for they do not believe a slight variation one



retailers in the six lines. The merchants handling furniture, jewelry and drugs pay heavy rent, the first for space and the other two for location

way or the other to be important, if the right store is involved.

The manufacturers' and the jobbers' rents also buy the use of roofs and locations. However, transportation and labor costs usually decide the value of the property they rent, instead of the desires controlling those who pass the door. A southern manufacturer who has heavy sales in two large cities found the rental best suited to his desires in a town midway between the two main markets and on the connecting railway. An eastern dealer in groceries at wholesale recently moved to a building near two railroads, a canal and a new subway extension, because he wanted good transportation coupled with facilities which made it easy for out-of-town buyers to reach his display rooms quickly.

What is a fair percentage of sales to pay for these locations which reach the right crowds and avoid extreme rentals? What have other men in your line paid? How does the kind of goods handled affect the rent? Manufacturers and jobbers desire to know what the average

successful retailer pays for his store in order that they may help customers who pay too much or too little. Retailers want to know so that they may adjust their expenditures to standards and find the rent which builds the sales volume at a profit.

The size of the stocks carried and the class of trade handled fix the averages for the different lines within wide limits which leave individual cases to be decided by local conditions. Mail order houses naturally pay low rents, for they need only a satisfactory roof near favorable transportation facilities. They are not interested in expensive locations. Investigation shows that mail order concerns secure satisfactory light, space and transportation for very slightly over one-half of one per cent of their sales.

Groceries and vehicle or implement stores are also able to avoid the highest rents because they, too, do not demand choice locations. Investigations established the fact that vehicle and implement stores pay, on an average, 2.12 per cent of their sales for rent, and groceries 3.07 per cent. The retailers of vehicles or implements usually hold close to the average, but grocers often vary one per cent from the standard for their line. A grocery in an exclusive residential section of a large city, with sales of $74,400, for instance, pays 3.7 per cent; and a small country store in California spends but 1.2 per cent to secure sales of $45,620. Small cash groceries in the large cities pay heavy rents in proportion to their sales, however. Figures from the middle-west for sales volumes under $10,800 point 3.5 per cent as an average for this class.

Clothing, shoe, dry goods and hardware stores as a rule lease more expensive shops. They hire a good location in addition to the building. Clothing stores in the

large cities pay rentals which equal five per cent of their sales, but figures from all sections of the country set 3.04 per cent as an average. Several hundred shoe stores reported rents which fixed a standard of 3.21 per cent, although one very exclusive shop spends four times as much. Dry goods stores were found to center about 3.24 per cent, and only two rents exceeding four per cent appeared. Hardware uses large stores and retailers of this line, investigators showed, on the average pay 3.41 per cent of their sales. The lowest rent percentage for this line, 1.2, came with figures from British Columbia, and no hardware dealer reported payments exceeding five per cent.

Furniture stores, which demand a large amount of display space, and department stores leasing the most expensive locations, pay still higher rents. Investigation failed to find a furniture store paying one per cent more or less than 5.04 per cent, the national average figured for this line. Department stores pay rents which, when averaged, equal 3.91 per cent of their sales. Several concerns doing a very large business in New York and Chicago manage to rank about one per cent lower, but it is also true that at least two big stores are paying slightly over four per cent.

The highest retail rents are carried by furniture, jewelry, drug and variety stores. They search out the choice locations and pay well for them. The buildings become a secondary matter and the sites all important. No jeweler reported payments for rent which exceeded the average set for this line, 4.98 per cent, by more than one per cent, and the Indiana store which showed the lowest percentage, 2.2, explained that its lease was unusually favorable. The drug stores averaged 4.02 per cent, and even in the small towns rents were not found

to range below two per cent. The record rent is paid by a druggist in a large city who spends 6.1 per cent of his sales volume of $350,000 to the landlord. Investigators did not encounter a single variety store which varied one per cent from the standard they set for this line, 4.41 per cent. One variety store in Chicago, a member of the Woolworth syndicate, pays $5,416 a month for its quarters.

FIVE *ways for getting more out of the rent bill are here analyzed in detail, with instances from the experiences of successful merchants.*

Since rent is one of the heaviest items in the cost of doing business, in his struggle to keep up with rising expenses the progressive retailer watches for opportunities to reduce it in one or more of five ways—rearrangement, building, moving, buying or advertising. Because rents purchase two distinct needs, a roof and a location, there are two directions in which to guide these five methods for economizing on rentals. Rearrangement involves making the most of the roof, regardless of where it is located, and often opens the way to profitable subleases.

A clothing firm in Seattle has a long lease on the ground and second floors of a building occupying one of the most valuable corners in the city. Recently this concern found that by crowding stocks together and buying new fixtures it could release the entire second floor. This space was remodeled into small shops which more than paid the entire rent for the two floors. Not only does this company thereby secure a store free of charge, but by subleasing to retailers whose stocks are associated with its displays, it wins new trade.

Frequently a rearrangement of entrances results in

better returns from the rent. A southern druggist observed that although a great many people used the street beside the blind wall of his store, very few of them apparently noticed his entrance around the corner. They were usually in a hurry to reach an interurban station

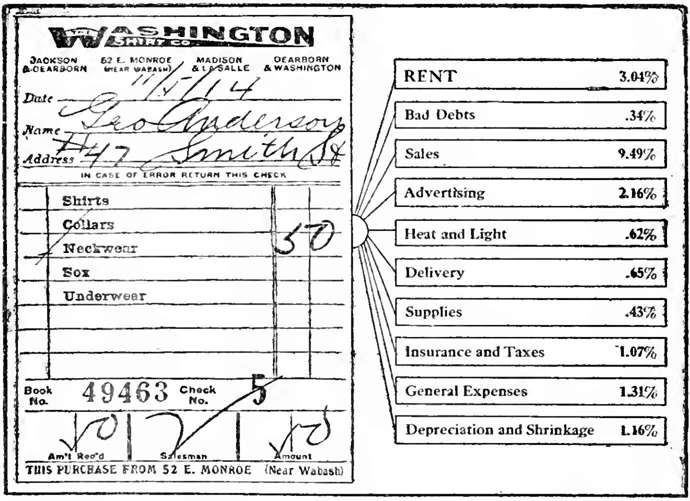


FIGURE VI: This sale of a tie for fifty cents is placed beside the average itemized cost of doing a retail clothing business, which sets the actual cost of selling the tie at ten cents

a block below and in no mood to search out shop entrances in order to make purchases left until the last moment. The druggist put a wide doorway through the blind wall, flanked it with display cases, and advertised for transient trade. The new business which resulted could not be accurately figured, but in eleven months his sales increased twenty-eight per cent and his rent percentage dropped from 4.01 to 3.6 per cent. The magazine and newspaper counter, shifted to the new

side entrance, showed an increase of sixty-seven per cent, probably almost entirely due to the rearrangements.

Remodeled interiors supply a possible way for avoiding increased rentals. Mezzanine balconies are now a common method for handling growing stocks. C. J. Ricker of Emporia warded off the cost of new space by putting his phonograph department on the balcony in his jewelry store, for example. A wholesale firm did not notice until new lines required additional space that the ground floor ceilings were unusually high. A balcony was built over the rear of this floor and the accounting department moved to it. The new stocks were then easily handled.

It is also often practicable to hold space in grocery stores to the lowest limit by fitting the fixtures closely to the stock handled. A Chicago grocer who faced a demand for more space went over his stock, sorted it into sizes, and rebuilt his wall shelves into corresponding compartments. He found that the new fixtures increased capacity one-third.

When the rent mounts high more than one retailer has economized on window space. A western jeweler narrowed his windows to shelf width and put the displays on boards which slide into grooves. This enables him to use two new counters and arrange displays on extra slides. At night he slips out the valuable display and guards against heavy losses from burglary by replacing it with inexpensive stock.

Manufacturers are constantly getting more out of that portion of their rentals which hires the buildings by studying to secure compactness. One maker of notions monthly marks off in colors on a floor diagram the space used by his departments and in this way

secures a graphic representation of changes. The diagrams suggest ways for economizing on space and prevented the building of one extension which was at first thought to be an absolute necessity.

WHEN *to move, when to remodel—these decisions often make or break the merchant. How a number of successful men have solved them is here described.*

The four ways of reducing rent in addition to rearranging—moving, buying, building or advertising—deal primarily with location. For instance, half the battle against rents may frequently be won by keeping on the watch for a chance to move advantageously. One variety store trebled its sales by changing to a shop which increased the rental from fifty to sixty-five dollars. However, moving is profitable to the retailer only after he has made a careful study of conditions.

At times the natural advance of rentals in a popular district, or the shifting of retail centers, make moving absolutely necessary. One solution is to take extra space and sublease. A clothier in a small Indiana city, when he found larger quarters imperative, took an entire building and remodeled the upper floors into offices. He also installed a central heating plant. The convenient offices were eagerly taken at figures which reduced his rent percentage from 3.1 per cent to 2.25 and cut heating bills in half. With the savings he buys additional advertising which is building sales at a faster rate than he could normally have expected.

Stores above the ground floor are also a possibility under like circumstances. In several large cities shops are prospering on even the twelfth floors of large buildings. Where choice ground floor rentals in these cities run to twenty dollars a square foot, second floor space

in the same buildings may be had for about three dollars a square foot. A clothier on the third floor of a Chicago building has built a losing business into one handling four thousand dollars' worth of profitable sales a day by advertising that the saving between his five-thousand-dollar rent and the fifty-thousand charge for corresponding ground floor space will be given to customers who take a three-second elevator ride.

To buy or build may also solve the rent problem. A well-known Boston merchant says that if his father had bought ten years ago the land occupied by their store the net annual saving would now be one hundred and twenty-five thousand dollars. Once a favorable site is found which has not been suitably improved, owners or capitalists will usually put up a satisfactory building on a long lease. It is also possible for companies which do not need choice retail locations to purchase or lease old buildings and remodel them into attractive business homes.

A few retailers have successfully turned to advertising in their efforts to secure reduced rents. They hire stores on side streets and spend more than usual for advertising, but not enough to make their total payments equal the highest rents. A Boston store which uses this method has a slogan for explaining the situation to prospects: "A bit farther, but it pays to walk." There is undoubtedly a close relation between high rents and the advertising value of a favorable, expensive location. Variety stores take advantage of this fact and secure small shops near the big stores which spend large amounts on advertising. Careful investigation has failed to prove, however, that a high rent as a rule reduces the advertising appropriation.

But rentals, even if they do not uniformly offset adver-

tising, are closely bound to insurance and taxes. By its location and structure the building absolutely decides the taxes and helps as well to fix the insurance rate on your stock. The taxes, if shown to be fairly assessed by the public officials, are difficult to reduce, and frequently they are placed beyond the retailer's reach through direct payment by the landlord. Insurance, however, is at least to some extent controlled by the maker or distributor who rents his business home.

INSURANCE, *although one of the smaller items in the cost of doing business, frequently offers an opportunity to make savings if these precautions are carefully studied.*

First of all, there are certain precautions to be observed if the closest economy is desired. When the insurance carried falls below a certain proportion of the replacement value, insurance companies are able to enforce so-called co-insurance clauses and pay only a portion of the loss suffered. Even when you feel that full insurance is being carried, a total loss may show that discarded dies, patterns or fixtures which you had not thought worth covering would, if replaced, cost enough to make these co-insurance clauses effective, for the insurance companies figure replacement values on everything. Therefore, it is wise to note in the policy that discarded equipment is excepted.

Furthermore, depreciation should be carried as a separate account or merely jotted down on a memorandum blank, for if fixtures or stocks are actually reduced in value on the books, it will be difficult to convince the insurance adjuster of the actual replacement value. Records of cartage and setting up charges are also of value in establishing fair replacement figures, and if co-partnership insurance is carried, the clauses which

direct payment to the company instead of the heirs deserve careful inspection by a lawyer. As a rule, insurance on retail stocks and fixtures should not be allowed to fall below four-fifths of the replacement value.

It is to be expected that valuable furniture and jewelry stocks, and drug inventories containing highly inflammable goods, cost more than usual to insure, and make the insurance percentages paid by retailers of these lines heavy. Clothing, department store and dry goods stocks are also large, and frequently valuable. Therefore, insurance charges on them naturally average higher than among the bulky or less expensive goods handled by grocery, hardware, vehicle, variety, and implement stores. These conditions are substantiated by the following percentages of retail sales spent for insurance and taxes:

Groceries	.58%
Mail order houses	.98%
Variety goods	.98%
Hardware	.99%
Department stores	1.01%
Shoes	1.03%
Implements and vehicles	1.04%
Clothing	1.07%
Dry goods	1.08%
Drugs	1.21%
Jewelry	1.32%
Furniture	1.57%

The most favorable opportunity for securing permanent reductions in these insurance costs occurs when the building is being erected or remodeled. The local insurance board may then be requested to offer suggestions for obtaining low rates. A retailer who recently remodeled a store in Maine found that the insurance man gave

advice which resulted in reducing the rate from five to two and a half dollars.

A million dollars' worth of property is daily lost through fires. The resulting hazard in part sets your insurance premium, but local conditions within your control also influence the rate. Therefore, reductions can frequently be obtained by either installing fire-fighting equipment or using safer lighting and power facilities. A bookbinding plant found that the use of electricity for heating the glue pots, at a higher cost than charcoal, reduced the insurance enough to secure a net saving. The owner of a small office building in a middle-western city cut the insurance rate two cents a hundred by putting an extra fire hose on each floor. If you are near a hotel or some other building which increases the premium you pay, when moving it may be possible to locate less hazardous surroundings and combine a lower rent with reduced insurance rates.

In general, the way to reduce the cost of doing business through rent, taxes and insurance is continually to watch for a more favorable location, if you have arranged your present space to the best advantage. There are men who allow pride to stand in the way of reductions in these items. They have more than enough space but fear that their reputations will suffer if they move to a more modest building actually fitted to their requirements. They hesitate to give the business a fair chance. Others know they are enjoying exceptionally favorable leases but neglect to plan for the future.

A clothier in an Indiana town had until recently a lease at a very low rate on a building erected for his use by a friend. The friend died in 1910 and the heirs increased the rent fifty per cent when the lease expired. The clothier, because he had not prepared for this con-

tingency, found a year's profits entirely taken by the increase during the four months given over to a search for a new location.

Some retailers who rent adjoining properties from several landlords endanger their stores by failing to have the leases expire simultaneously. An eastern merchant who uses five connected buildings was recently forced to pay fifty thousand dollars a year for one of them, instead of twenty-nine thousand, because the lease on it expired before those on the other four. He could not sublease all of the stores and the landlord of the single building took advantage of the situation.

The change in business sections brought by trends in city development are above all else important to the maker or distributor. Little cities are growing within the big cities. Their advances, unless anticipated, may unexpectedly force the manufacturer to move miles or drive the retailer's rent a hundred fold higher. These contingencies, which may mean life or death to your business, can be turned from disasters to profitable happenings only by keeping watch constantly on the growth of your section.

V

THE COST OF GETTING TRADE

ADVERTISING not long ago sold in one day seven alarm clocks out of a stock of twelve on the shelves of James McCloskey's jewelry store in Shelbyville, Indiana. Year in and year out for decades alarm clocks have been stocked and advertised in Shelbyville without equaling this day's sales. Moreover, the successful copy was written by a man who has probably never heard of Shelbyville, and printed in a magazine published hundreds of miles away. Still it accomplished a task at which the publications nearest to Shelbyville, and the retailers best acquainted with every man, woman or child in the town, have ignominiously failed.

No wonder McCloskey talks of the event in astonishment. An intangible force urged people to come to his store; they responded; he took in cold cash; his profits benefited. The same force is at his own finger tips, but he has not been able to make it sell alarm clocks. Advertisement after advertisement addressed to the good people of Shelbyville, telling them about alarm clocks through their own papers in the words of McCloskey himself, does not move many timepieces. Nevertheless a factory in the West and a publishing firm in the East succeeded in marketing clocks over McCloskey's counters.

It is quite safe to say that McCloskey would not believe this if he had not questioned every one of the seven who purchased alarm clocks that day. He let the first sale pass without particular notice, but the second aroused his curiosity. The third astounded him. He asked this customer what prompted her to buy. When she mentioned the advertisement, he called the first two purchasers by telephone. The same advertisement had interested them. The last four to seek alarm clocks went through a rigid catechism by McCloskey before they were even able to spend their money. They spoke of the advertisement. McCloskey today stands convinced not only that advertising is a mighty selling force, but that he can take advantage of it himself.

Definite results like these in Shelbyville enable those who watch advertising carefully to set up standards that tentatively measure its efficiency. The spread of advertising until it became a six-hundred-million-dollar-a-year national selling force not so long ago—in the nineteenth century—put it on trial as a new, broad, distributive method. For years many checked its work.

Hence we today probably have more standards and recorded results for advertising than for the majority of the items in the rising costs of doing business. To take an example, many merchants probably know more closely what to spend for advertising than for rent. No doubt if we were in a position to bring together the scattered data that lies unassembled on advertising, we could judge from wider recorded past experience in buying advertising than in leasing a new location.

The larger department stores, for instance, spend from two to four per cent of their sales for advertising. A new store, or one enlarging its activities rapidly, may use five per cent, allotting two per cent of this to news-

COST *of* ADVERTISING *a* SALE *of* WOMEN'S *and* MISSES' COATS

THE ADVERTISING

Advertisements placed in four morning and evening newspapers	$1,321.20
Post card announcements mailed to a list—not used for previous coat sales—of 4,900 customers	198.00
	$1,519.20

THE RESULTS

Women's coats sold	$5,536.00
Girls' and misses' coats sold	3,355.00
	$8,891.00

Sales by hours during one day of this sale in the misses' coats departments: 9:30, $207.50; 10:30, $317.75; 11:30, $503.75; 12:30, $657.25; 1:30, $854.00; 2:30, $1,153.75; 3:30, $1,312.75; 4:30, $1,511.75; 5:30, $1,705.60. It will be noticed that there was a small early response which soon fell off and at 12:30 only one-third of the day's total was registered. The largest gain came between 1:30 and 2:30.

THE LESSONS

Since the $1,519 spent for advertising are 19% of the sales secured, and the planned sales were $18,414 (the total value of the stocks placed on sale) these results are not promising. However, the weather was bad during the beginning of the sale and the planned sales were evidently far too high.

Next time the post card announcement should be discontinued and more window space devoted to the sale.

This was a mid-week sale. Next time it should be held on Monday, Tuesday and Wednesday or on Thursday, Friday and Saturday. If it is held on Thursday, Friday and Saturday an announcement should be made the previous Sunday, so as to get the advantage of the greater radius of circulation of the Sunday papers. Much of the trade comes from environs which are not reached by the week-day papers. Mid-week advertising is not best for girls' departments. Many reasons back this up—the most important is the objection to taking the child out of school.

Only six sales were lost and the prices appeared to be at the proper levels.

papers. Those in New York City average about two or three per cent and the Boston stores range approximately one per cent higher. A prosperous Texas department store, on the other hand, allows only 1.32 per cent of its sales for advertising. R. H. White and Company of Boston buy regularly every Sunday, in one paper alone, space worth $1,500. The actual department store campaigns described on pages 73, 81, 84 and 85 indicate typical advertising costs on specific offers.

Gas and electric light companies of considerable size customarily appropriate from two and a half to four per cent of their gross receipts for advertising purposes. The wholesale druggists, however, do not usually spend over one per cent, and confine their space to trade publications. Through their national association the retailers of hardware advise in their line an advertising expenditure equal to two and a half per cent of the sales. The variety stores do not use more than two per cent for advertising and include in this appropriation not only printers' ink, but as well the loss on "leaders" sold below cost to attract trade and a portion of the high rentals shouldered in order to reach large crowds.

Figures from the manufacturers are also available. The American Keyless Lock Company made a $472.57 advertisement draw inquiries at a cost of from 2.5 to 9.6 cents each, with an average at 6.3 cents; sell 4,287 locks; and bring in cash amounting to $3,620.46. Four makers of hoisting equipment put, on the average. 2.25 per cent of their gross sales into trade paper advertising; four manufacturers of excavators and shovels, 2.13 per cent; and one firm handling contractors' equipment, seven per cent. A stationary engine offer secures sales at a cost of eight per cent—one $140 advertisement pulled 259 inquiries which resulted in fifteen sales total-

ing $1,132.47. The owners of a nationally advertised line of corsets invest from three to four and a half per cent of the sales in advertising.

ADVERTISING *bills can rarely appear in the light of so much money lost when it is possible to check them against standards such as these and predict returns.*

Retail advertising comprehends all methods of getting customers into the store—newspapers, circulars and show windows. Even the most difficult of these to trace, the cost of advertising through show windows, may be checked against known values. Hundreds of druggists outside the Chicago down-town business district have agreed that their windows are worth from three to fifteen dollars a week, and some of those in the heart of the city consider one hundred dollars conservative. A New England store charges the departments using its windows over three hundred dollars a day, and one Chicago firm annually spends $80,000 decorating windows. A real estate expert who has intensively studied the value of show windows strikes an average for the country at ten dollars a week. Since the show windows occupy the choice space in a store—the front part of the main floor is the portion most used by customers—their value is anything but trivial.

Statistics of a broader character supplement these detailed costs. Thirty thousand nine hundred and twenty-seven reports from Chicago consumers show that fifty-five per cent were influenced by the dealer to buy nationally advertised brands, thirty-six per cent by advertisements, and six per cent by friends. Sixty-one per cent of them bought cocoa and chocolate because of the advertisements, sixty per cent cereals, forty-eight per cent non-intoxicating beverages, forty-six per cent

flavoring extracts, and forty-five per cent meat products.

Several investigations tend to show that possibly newspaper advertising campaigns may be repeated with safety after six or twelve months have elapsed. Full pages in newspapers frequently pull six or eight times as much as half pages. An advertisement is rarely effective in the Sunday editions of large dailies for more than six weeks. Circularization, on the average, is more expensive than newspaper advertising.

The man who wrote the copy which sold McCloskey's clocks in Shelbyville doubtless knew these indicated, if not fully established, standards, and probably many more. With them he partly guided his ability to write paying copy. Now the majority of the standards McCloskey and the seven hundred and fifty thousand odd other retailers in the United States can pick right out of this chapter and use. This of course assumes that they want to advertise in one way or another in order to obtain the larger sales volumes demanded by the narrow margins of today. There are some retailers who do not advertise, but a large wholesale firm has collected statistics which signify that about eighty-four per cent of the failures in this country centers among those who spend nothing on advertising.

The standards already given, and those in the table on page 78, although they furnish a general idea of normal advertising expenditures, cannot be relied upon to show exactly how much to spend. Local competitive conditions determine the actual amounts in each case. Sometimes an expensive location lowers the advertising expenditure; at others it works the opposite way. The man who has a high-priced location can usually match the sales volumes of rivals in cheaper stores at a lower direct advertising cost. However, in nine cases out of ten he

wants to better their records. Then his advertising bills often exceed theirs, both on account of this desire and because he understands that it is frequently more profitable to advertise a good location extensively than a poor one.

Factors of this nature cause wide variations. Indeed,

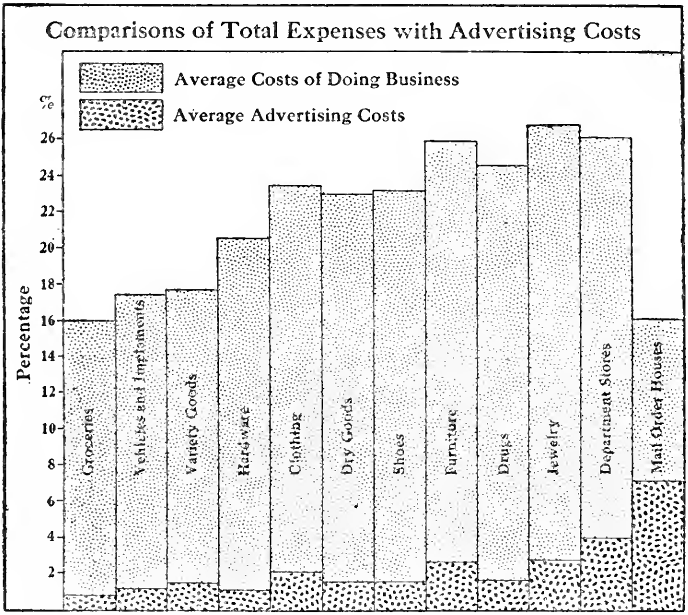


FIGURE VII: These comparisons indicate that lines which turn quickly under low costs spend the least for advertising. Department stores, however, strive for large volumes in order to cover heavy expenses

the statistics in this article are almost valueless unless it is remembered that different cases require different treatment and that the important point is less how much to spend than how to spend in order to make every medium pull its utmost in line with other sales forces.

Here are a few cases in point: A New England merchant selling annually $40,000 worth of goods spends $3,000 for advertising and a man in the Middle West secures about the same volume for only $1,200; one firm in the East has held its advertising bills to an average of two per cent of the sales for fifteen years, while a chain of ten small western stores, each handling a volume between twelve and fifty thousand dollars, fixes two and a half per cent as normal; and in the Northwest a chain of five stores figures three per cent a fair appropriation.

Expenditures as divergent as these, from all sections of the country, when averaged, nevertheless give standards which will immediately detect abnormal advertising expenses. Investigators have taken figures drawn from over one thousand stores and compared them to secure the following averages, which are percentages of the net sales and include all types of advertising normally paid for by retailers—letters, catalogs, decorating windows, newspaper space, time used, and so forth:

Groceries	.83%
Hardware	1.12%
Vehicles and implements	1.22%
Variety goods	1.52%
Shoes	1.65%
Dry goods	1.67%
Drugs	1.76%
Furniture	2.72%
Jewelry	2.85%
Clothing	3.16%
Department stores	4.01%
Mail order houses	7.21%

These standards represent average expenditures. The returns they bring are horses of another color. C. C. Brown writes copy for his store in Cawker City, Kansas, which pulls a twenty-five-per-cent increase in sales, but

the retailers in Canajoharie, New York, may not do as well. The "how" of the methods of men like Brown are worth study. A careful analysis of the advertising of sixty-two merchants who are known to be making good in twelve states with sales volumes ranging from twenty million to eleven thousand dollars a year shows that they use five methods: (1) placing right merchandise behind the advertising; (2) telling nothing but the truth; (3) building up individuality and personality through all the advertising; (4) getting store or other news into the copy; and, (5) keeping everlastingly at it.

Let us discuss these five methods by which the sixty-two merchants build trade through advertising. First comes the necessity of having the right goods behind the advertising. The root of all advertising is in the merchandise it describes. Stocks, service and store environment build sales just as surely as printed words. Leo Kahn of Connersville, Indiana, does not spend a cent on newspaper space, preferring to advertise with service, unusually attractive equipment, exclusive stocks and down-to-bed-rock prices. A misrepresented sale brings ruin if it is often duplicated. The consumers are becoming better posted on values. Ninety-nine per cent of our successful merchants put the right goods back of their prices as a matter of second nature. The first method of the five favored by the sixty-two merchants is, therefore, all important.

Another incident to illustrate the importance of having sound goods back of the advertising. One of the dozen or so eastern retailers who handle sales running into the millions grades the elements in his advertising as follows: (1) style; (2) fit; (3) completeness of stocks; (4) service; (5) profit. He pays his advertising manager fifteen thousand dollars a year to plan his

copy, but sees to it himself that this copy ranks merchandise first and profit last. No doubt his doing so helps to explain why he is a millionaire.

The second method of the five we are analyzing prescribes truthful copy. Apparently every retailer is agreed on this point. Still, this label continues to be used: "Fresh gathered eggs—35 cents a dozen." And a Chicago store advertises: "Get a $25 suit for $17, with two pairs of trousers. You can do it here because you don't have to pay for an enormous 'Loop' rent. We don't pay any rent at all. We own our own building. We save $100,000 on that item alone; we save thousands more on other expenses—and you save on those, too."

If the poor knowledge of accounting indicated by failing to charge himself rent is an indication of this man's methods, his store will soon be in difficulties.

MERCHANTS *have built fortunes by advertising and merchants have lost fortunes by not knowing how to advertise. These policies are followed by the former.*

It is true that it is difficult to hold to the "one price to all" principle in some towns of small population, especially if many of the customers are farmers who themselves contend with varying prices. However, merchants who insist on holding to their prices under these circumstances are winning out when they freely advertise the justness of their attitude.

Now if it amounts to anything at all, advertising is a window through which you invite consumers to look at your offerings. If this window is blemished with fake statements and half-truths and crooked ideals, some consumer notices it sooner or later. He will tell others; they still others—such news radiates like ripples from

RESULTS *of* ADVERTISING *a* SALE *of* MEN'S SHIRTS

THE ADVERTISING

4617 lines in six morning and evening papers...	$695.94
Circulars in the monthly statements sent to charge customers on the first of the month..	84.20
Post cards to the men's shirt department's special list of cash customers..................	41.82
Circulars describing the other men's departments and distributed at the doors.........	106.14
Circulars telling how the shirts were secured in large lots enabling low prices to be set for this sale	241.16
	$1,169.26

THE RESULTS

The first day (a rainy Friday) 2,849 shirts were sold for 85 cents each, 987 at $1.65, and 302 at $2.85. Saturday 962 went at 85 cents, 763 at $1.65, and 228 at $2.85. Small advertisements were placed in the Sunday papers and on Monday shirts worth $1,003 were sold.

THE LESSONS

The sale started slowly owing to very rainy weather. Sales increased slowly until noon. At noon there was brisk selling which extended until shortly after two o'clock. It appears fair to assume that during this period many people used their lunch hours to take advantage of the sale. In the afternoon a great many women and middle-aged men shopped until shortly after four o'clock. From about 4:30 until closing time (5:30) every counter was again thronged with customers, presumably clerks and others.

Because of the confusion that existed in some sections of the department, it would seem wise for the next sale to place shirts of the same price together—that is, to arrange an 85-cent aisle, a $1.65 aisle, and so on. The argument against this arrangement is that sometimes people would buy $1.65 shirts if shirts at that price were in the 85-cent aisle, even though they had come to purchase the lower priced merchandise. This, however, would not appear to offset the manifest advantage of having shirts of one grade arranged by sizes in one place.

At the next sale it would also be wise to consider whether or not it would be advisable to have the sale at only one price—85 cents.

the splash of a stone in still waters. Then comes ruin and disgrace, for severe laws against untruthful advertising are rapidly being enacted.

A man who sits high in the trade councils of the United States and of the world, a man who has built a great business from a room you could span with outstretched arms, has the following opinions about putting nothing but truth into advertising—he is not talking for publication, but for the benefit of a group of his own executives gathered in conference after closing time:

"We say, for instance, that in advertising the basic principle is to tell the truth and only the truth. That sounds a good deal like copy book ethics and not like business. You would expect to be told that from the pulpit. This basic principle of advertising is not commonly believed in or else a great deal of advertising, which is not based on that factor, would be changed.

"Why is it good business in advertising to tell only the truth? Why should we always come back to that if we are in doubt as to what to do? Because if by eloquence or technical skill in advertising we are able to make customers come into our store and buy goods instead of buying them because they are better, cheaper and more desirable than those of our competitors, then we are at the mercy of words, and the man who can lie most can beat us out.

"None of us will aspire to be the biggest liar in the city, and on that basis somebody who is willing to be a bigger liar than we are, can get the trade. All the correction of methods, all the building up of scientific systems, comes to naught unless we have that fundamental from which nothing can stir us and to which, when we are involved in the intricacies of advertising, we can always go back—to tell nothing but the truth. I want

you clearly to emphasize in your own minds, that while this is good ethics, it is better business."

So much for right merchandise and truthful copy—the third advertising method standardized by the sixty-two merchants is individuality and store personality. Psychologists would tell you that we all swarm around a great average—a norm, they call it—millions of us. It only takes an infinitesimal advance to raise a man above this norm. As soon as the top of his head goes over the norm, he is marked by thousands in his immediate vicinity. Let him push one shoulder up, and a state notices him. Just a shade more and he is world known—a Wanamaker or a Field or a Ford. Still his complete advance is so small that the psychologists watching the norm scarcely notice. The stores which reflect the men who own them naturally mass on a great norm, too. A bit of individuality puts a firm far enough above the norm to secure wide and profitable attention for it. Hence, it is worth money and effort to secure store personality.

There are many and varied ways of creating individuality for the store. Herbert A. Ballou of Worcester, Massachusetts, painted his store blue. C. J. Ricker uses a white tile front for a like purpose. Mr. Ricker has, in addition, a little slogan which he advertises extensively: "Watch, clock and jewelry work done by Ricker and Son is always well done."

Then of course there are a thousand and one little plans that have a touch of individuality. Some merchants send picture post cards to their customers from trade conventions—that's more than the president of a mail order house boasting several million customers can do, at any rate! Others use birth cards to announce seasonal changes in their stocks. An insurance company

sends policyholders "perpetual pencils" on their birthdays. A laundry sells advertising space on the "shape

A SAMPLE RECORD *from a* SALE *of* DRESSES

THE ADVERTISING

Advertisements placed in four morning and evening newspapers	$1,183.60
Post card announcements to a special list of the department's cash customers	172.40
	$ 1,356.00

THE RESULTS

Women's dresses sold	$9,990.00
Misses' dresses sold	4,011.00
	$14,001.00

THE LESSONS

Since the planned sales totaled $12,000, a good record was made, the cost of the advertising being 9% of the sales.

Mid-week sales of this type are valuable because they tend to make the daily sales volumes uniform during the week.

Some of the lots were in insufficient quantities and this fault should be remedied next time. Only about 100 of a particularly attractive corduroy dress featured in the advertising were on hand. They were all gone a half hour after the store opened for the sale.

Sales of this kind are unusually worth while because often manufacturers can be found who are practically idle at the time and therefore willing to sell almost at cost.

holders" it puts in shirts and paints the sides of its wagons like checker boards so that the housewives, recognizing them quickly, will have their bundles ready.

A wholesale paper house prints a catchy business axiom on a cover of its house organ heavy enough to be torn off and stuck over a desk. Many retailers wisely connect their window displays with local events—when

the normal school has a May pole party, their windows show miniature poles; after a local ball team is organized, the windows attract many to clay models of the diamond, and so on through hundreds of events. Catalogs frequently help to draw trade. Wrapping paper, unused space on sales slips or bags, and stationery supply other ways for securing individuality.

Elaborate sales ideas of the right kind often build

A GENERAL SALE THAT BROUGHT
$90,000 *in a* DAY

THE ADVERTISING

Space in newspapers for women's departments.	$1,789.10
Space in newspapers for men's departments...	383.60
	$2,172.70

THE RESULTS

Sales in all departments....................	$92,671.40

THE LESSONS

This is a one-day sale at which all stocks must show prices from one-half to one-third lower than usual.

This sale shows the value of persistency and good stock—the sale is an annual event during which great care is taken to offer exceptional values. Hence customers come to have confidence in the sale, and therefore little more than a detailed announcement is needed—in this instance at a cost of but 0.02 per cent of the sales.

A careful study of previous records and growths established an estimated volume of $90,000 for this sale—a remarkably close figure, for the actual volume totaled exactly $92,671.40.

The advertising is most effective when run in large space, one-fourth of which vividly explains the sale and three-fourths catalogs items from seventy-eight departments set solid in type as small as six point. Smaller advertisements, in scattered mediums, do little more than announce the sale.

personality. C. J. Ricker secretly gave five men gold watches and then advertised that they were instructed

to hand them to the first people asking them, "Do you trade at Ricker's?" Emporia, Kansas, bustled about for days shouting, "Do you trade at Ricker's?" C. C. Brown awards the woman in his city who receives the most votes from coupons, obtained with purchases at his store, a five-passenger automobile. He first advertised this contest on a March fourteenth and by April fourth fifty-two candidates were after the car. A. J. Aronson, of Canisteo, New York, gave the school children bags of marbles, and coupons good for fifty cents in shoe trade at a specified time during the first day of the marble season. He attracted a lot of new customers —it pays to remember the young folks.

It would not be difficult to assemble a hundred additional advertising ideas that bring a store individuality. They are used by merchants who make their copy pay by concentrating each argument on a single point that unearths an impulse, by following the seasonal changes closely, and by remembering that a hundred million dollars was recently disposed of by a hundred-word will. Above all they write their copy as they would talk to customers over the counter—one of them even makes rough drawings of barrels or crates containing representations of his special offerings and has them zinced for publication.

THESE *five simple methods for making advertising more profitable are worth careful study—particularly the plan used by John Wanamaker.*

Such methods broadly apply to all types of advertising—newspaper layouts, telephone calls, letters, show windows, catalogs, booklets, circulars, cards, service, dodgers, premiums, blotters, signs and circulars. It has been shown that windows are worth certain amounts, in

dollars and cents, a week. Therefore they warrant close attention—sparkling glass; clean sidewalls and floors; seasonable displays, changed at least weekly; color schemes; no over-crowding; concentration on one offer at a time; and a connection with national advertising when possible. Letters, too, pull better if given a touch of individuality.

We have yet to consider two of the five tested methods: the use of news items and the value of persistency. After all, we only advertise as a matter of information, in order to sell by description. The newspaper reporters write their stories to carry information, too. But do you for one second suppose that a real live newspaper reporter would write, if instructed to compose an advertisement for salt sifters: "Extra values in salt sifters?" More probably he would hand in this: "Salt sifters that shake from the left hand while the right is busy."

Notice just two sentences from a John Wanamaker advertisement: "The sturdy rompers of cotton crepe which so many small boys and girls wore last summer came from the hands of an energetic little woman who lives in a bleak seacoast village, and many of our finer things are made by individuals. We buy wherever we can find goods up to our standard." Hundreds of facts as interesting range themselves along the distributive and productive channels which bring staples to every store in the country. The news to be found in all stores of any size is welcomed by consumers.

We write advertisements to get, first, attention; second, a reading; third, a decision. Live news assures us the first two of these three objects and a fighting chance for the third. Surely the sixty-two merchants are right

when they rank news interest with the five factors that make their advertisements pay.

Persistency—keeping everlastingly at it—comes next. At this point it is timely to call to mind the good woman who declared, "I don't believe in nagging my husband, but I feel it is my duty to keep some things before him." There are facts which must be kept before consumers—otherwise, no excuse exists for their remembering your business. Advertising in one form or another, from exceptional service to printed words, is the only way to spread these facts. Further, advertising has a cumulative effect which can be crystallized by persistency and nothing else.

Examples that carry lessons over into the local field are plentiful among national campaigns no longer recalled—Apitezo, Force, Egg-O-See, and a thousand more. Jordan Marsh and Company of Boston, on the other hand, have for years advertised their annual birthday sale. Recently they sold $500,000 worth of merchandise in two days by merely listing items and prices under a heading descriptive of this birthday sale. The cumulative results of good advertising do not fall much short of being as solid as government bonds. Certainly they spring from several of the bonds' characteristics—concentration, consistency and continuity.

LESS *than five per cent of the merchants in America know how to advertise, according to one manager. These tested methods should help better this record.*

This completes an analysis of the five methods used by the sixty-two merchants in bettering returns from their advertising—right merchandise, truth, individuality, news, and persistence. The standards from over a thousand stores offer an opportunity roughly to judge

how much to spend. Yet these tested methods and the carefully gathered costs will not assist to the full extent of their possibilities, unless the man who puts them to work is fired by enthusiasm for his task. Advertising that pulls is only written by those who live for, fight for, the attractions it describes or helps.

And a place in the distributive chain which supports the country, either as a producer, a jobber or a retailer, is well worth existenee and struggle. The retailers, every wise manufacturer understands, are uncertain when cajoled, unproductive when driven, and helpful when appreciated. They can practically ruin a campaign involving thousands of dollars by using substitution. The makers and the wholesalers feed, clothe and shelter the nation. Work of this importance warrants loyal efforts and good advertising.

Still the advertising manager of one of the largest wholesale houses in the United States says that less than five per cent of our retailers know how to advertise. If this is true, it may come about because the attraction in most work—particularly retailing—tarnishes a bit with close contact. Nevertheless the good and the power in distributive tasks well done exists, furnishing a strong appeal for strong enthusiasm.

Couple this enthusiasm, the five successful methods and the cost standards together—then good advertising comes easily. Two men express this fundamental idea—the reason for writing this article—elearly. One is a jeweler in a small middle-western town, the other merchandise manager of the largest store of its kind in the world.

The jeweler says: "Enthusiasm in your own business is one of the big foundation stones of success that comes to a man. This only means the ability to reeognize

business possibilities or opportunities; the capacity to see chances to get business in the everyday contacts and events of your own neighborhood; and the strength to hold yourself in your own field and not look beyond to the improbabilities.''

This is what the merchandise manager thinks of his job: ''We believe that the function of retail distribution should be undertaken as a social service equal in dignity and responsibility with the function of production, and studied with equal intensity in order that the service may be performed with the highest efficiency, greatest economy, and with nothing more than a fair profit to the retailer.''

PART III

WHAT IT COSTS TO RUN THE STORE

VI

THE COST OF DELIVERIES

DELIVERY wagons, forty or fifty miles from the big New York stores operating them, dot long stretches of the old post road to Boston every morning as the sun tops the horizon. They carry purchases, big and little, rushed overnight in high powered trucks to suburban distributive stations. Before daylight, smaller vehicles swarm away from these branches by the hundred; the sun finds them among the farms. This far flung convenience, the big stores' supreme effort to serve the consumer, levies, on the average, two cents from every dollar spent in New York city's larger retail concerns.

One New York department store delivers over an area equal to one-third the state of Massachusetts at a cost exceeding one million dollars a year. A Philadelphia company sends some of its trucks to Atlantic City. Less important firms supporting delivery facilities proportionately extensive, usually, on account of their small sales volumes, spend more out of each dollar for deliveries than the large stores.

These expenditures are factors of consequence in the rise of costs to do business. Twenty years ago purchasers did not expect deliveries. They then spent on one shopping trip the seventy-five dollars they today divide over

fifteen or twenty. During the eighties, a retailer who occasionally hitched up the family horse to deliver a large order was considered exceptionally accommodating.

In 1883, 14.5 per cent of the sales amply satisfied the combined net profits and costs to do business of Alexander Findlay's store in Madison, Wisconsin. By 1905 it took 21.5 per cent of the receipts to secure a smaller net profit and cover the rising costs. By that year costs alone amounted to 14.5 per cent. Three cents out of every dollar went for deliveries. Last year saw the expenses increase to 18 per cent and the gross profits to 22.5 per cent. Paul Findlay says that he could cut the selling price on one staple 20 per cent, if his customers would be satisfied with delivery facilities half as expensive.

This rapid multiplication of the conveniences offered by the seller to the buyer changed competition to its very foundations. The goods alone no longer limit the competitive issue, for the buyer may now be equally interested in the attractiveness of the service supplied with the wares. As surely as accurate deliveries form the most desired share of the seller's service, delivery of some sort has become practically a condition of sale. The seller is obliged to meet competitors' facilities. When one concern makes free deliveries, consumers feel justified in expecting equivalent service from rivals.

Thus delivery is all but automatically forced upon the distributors, who soon find their markets actually depending upon it. Size offers no escape, for, except in certain lines, the little distributor must deliver if he expects to grow into a big distributor. The man with a small sales volume often finds his delivery costs a ruinous burden; the man with a large trade discovers that, unless he is continually watchful, pressure makes his

deliveries irregular. The long and short of this situation is that the average distributor either delivers his sales or goes under. True, a few break away and succeed in holding their trade. Some control special products so famous that they can successfully withstand the demand for free delivery. Others pick a definite trade class which willingly carries home what it buys.

Harry Whittelsey, one of the owners of a chain of Kansas "no-free-delivery" stores, handles an annual volume of $250,000 on a ten-per-cent mark-up. Duke Bowers, who runs thirty-two successful stores in the South, refuses to deliver a single order which does not total five dollars. He makes money on a fourteen per cent mark-up. Cooperative stores often profitably eliminate delivery expenses—Frank W. Chase, who organized a cooperative store for Boston bank employees, believes that the large cooperative enterprise can save three per cent by eliminating deliveries, and the smaller stores from eight to ten per cent.

JOHN WANAMAKER *is reducing his delivery costs. Thousands of men with smaller stores are puzzling over the same problem. Here are several tested solutions.*

Many retailers wedged between the horns of a delivery dilemma compromise with their customers. They either secure the acceptance of a definite delivery schedule which necessitates the placing of orders between certain hours, or offer discounts and better store service in return for a total release from delivery expenses. E. W. Darrell in New England delivers to schedule, and Abraham Roberts in the West only sends wagons daily to customers within three miles of his store. In Akron, Ohio, a paying market declines to deliver, but maintains a special counter for quick wrapping and attempts to make

its prices unusually attractive. Another middle-western store with no delivery equipment gives attractive premiums frequently and advertises "non-delivery" sales at cut prices. An eastern laundry which offers a ten per cent discount to those who bring and take bundles, reports a three per cent reduction in its delivery costs.

Losses, however, face the average distributor who tells his customers, "Hereafter you'll have to do your own carting." The consumer forced by circumstances to content himself with crude distributive service, including a "no-free-deliveries" policy, usually puts up with what the market offers. He has no alternative. But as soon as circumstances brighten, he, of course, desires the best service his money can buy. There is no happy medium. The consumer either says: "I'll do the lugging," or, "you do the lugging, and see that you do it right." Experience shows that the distributor selling to consumers who feel they can afford to have purchases delivered, is beckoning trouble when he fires the delivery force.

Witness the case of F. Braastad and Company at Ishpeming, Michigan. They put their prosperous business on a "no-credit-no-free-delivery" basis last September. They wanted to find out just how much of today's rising costs and soaring living expenses belong at the distributor's door. Therefore, they cut prices ten per cent throughout the store and in return asked purchasers to release them from carrying accounts and delivering goods. The cash rule was accepted by their customers, but thumbs went down with great emphasis on the "no-free-delivery" regulation. The owners of the Braastad concern discovered what they desired to unearth—deliveries were resumed. Today they have this to say about their little tiff with rising costs and the consumer's

ideas about service: "Our cash system has been an unqualified success. But there were so many objections to no delivery that we finally had to go back to the delivery system, although we are now making less frequent

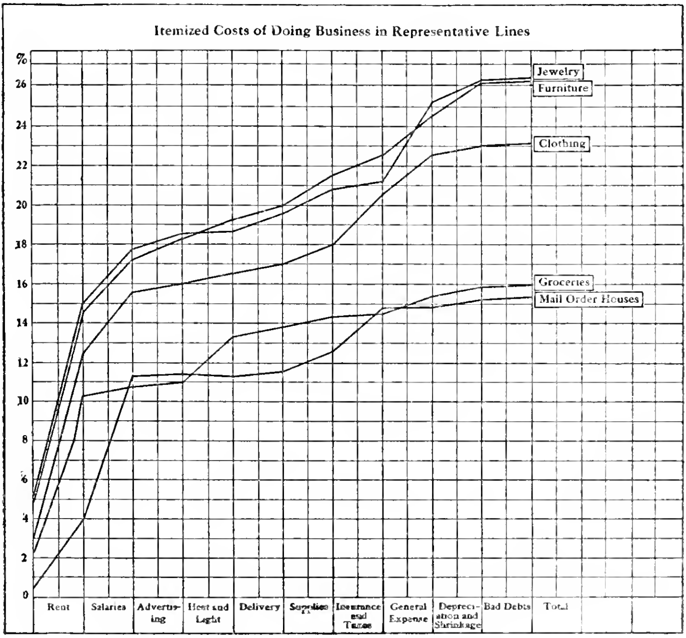


FIGURE VIII: Each line in this chart represents itemized costs of doing business. As the lines progress to the right, the items, including delivery expenses, are added, until total costs appear at the extreme right

deliveries than before. It seems that the majority of the people want their goods delivered and are willing to pay for it."

So much for evidence that making deliveries has evidently crystallized into a sort of distributive law of the Medes and Persians. Under these circumstances it is

7

necessary to establish two sets of facts—first, how much it costs to deliver representative stocks; secondly, how these costs may be reduced. From well over a thousand stores, scattered through every state in the Union, SYSTEM has collected figures on the cost of making deliveries. These figures, whether from horse, electric or gasoline equipment, and without regard to the size of the stores tabulated, when averaged, give national standards from which it is possible to judge the cost of carrying purchases to the doorstep of the American consumer. These national delivery cost standards, which include wages and all items directly connected with deliveries, follow:

	Percentage of Sales
Groceries	2.53%
Department stores	2.01%
Vehicles and implements	1.06%
Dry goods	1.02%
Furniture	.94%
Hardware	.91%
Clothing	.65%
Drugs	.51%
Shoes	.46%
Jewelry	.09%
Variety goods	No deliveries

These standards give an average for the country against which individual figures may be checked for extreme variations from normal conditions. An absolute check on individual delivery expenditures is of course impossible without allowance for widely varied local factors and conditions.

In Shelbyville, Indiana, one retailer says he pays no delivery expenses because he combines recreation with rising costs and delivers in his touring car! A young man, who for exactly two months had his name on a shop door facing the main street of a Chicago suburb, favored

the same idea, but unfortunately lacked the touring car. He was so frequently away from his store making deliveries that one night the sheriff locked up shop for him. In a medium-sized middle-western city a department store delivers annual sales of $225,000 for $3,433.46, spent to hire a wagon, two horses, a man and two boys. A few miles away a dry goods store delivers sales of $16,000 for about $32 invested in the time of the boy who does the sweeping.

Although pavements, grades and other physical conditions increase the delivery cost variations caused by corresponding individual circumstances, it is possible accurately to fix the range over which the usual cost per package delivered will vary. Department stores find it costs them from five to eight cents to deliver the average package, regardless of size. The run of distributors pay from five to eleven cents. A St. Louis department store found that it cost four cents to deliver a package by gasoline; five to five and a half cents by electricity; and seven to seven and a half cents by short team hauls. These costs, however, do not include depreciation.

One of the largest department stores in the Middle West makes deliveries by gasoline and electric trucks at a cost of about 3.75 cents a package within the city limits and 5.25 cents in the suburban sections. A small eastern store makes a record of 3.75 cents a package on account of the numerous level streets in its delivery area. A New York store delivered 1,168,511 packages, at an average cost of 6.43 cents each, by gasoline, and 1,376,030, by horses, for 8.46 cents. A clothier in the same city makes his deliveries for 7.4 cents a package by two gasoline automobiles which average sixty miles a day.

It is also possible to secure comparisons through average costs of typical equipment. For instance, the aver-

age team and wagon, with horses and men in reserve, will cost about six dollars and a half a day, and a three-ton gasoline truck, from nine to ten dollars.

It is to be expected that concerns delivering every sale stand heavier delivery expenses than those handling stocks which are, at least in part, carried away by purchasers. Coal and ice companies, for example, count delivery one of their heaviest expenses. The largest coal company in Chicago spends over 36 per cent of its gross profit for teaming and cartage. Wholesalers usually pay more than the retailer for deliveries. One wholesale firm recently found that its average cost to deliver each of 3,214 packages to be 11.5 cents. Another wholesale concern delivers its packages for 9.7 cents each. One Chicago jobber figures that it costs 18 cents to deliver each package he sells.

SAVINGS *in the delivery department depend in most instances on these principles and detailed methods which have been tested out by going concerns.*

With these standards available for checking up delivery costs, the second problem is to find ways for securing reductions. Economies in all types of delivery systems first of all depend on care in routing. The delivery area is usually divided into sections which enable the heaviest loads to be routed over the best roadbeds, and the lighter runs through the poorer streets. One store superintendent finds it profitable to make a tour of his delivery routes at regular intervals, in order to pick the best roads and check on street improvements. It is also important to find the hours when the main thoroughfares and the most congested bridges are least in demand. Whether a distributor handles a small or a large sales

volume, a careful study of routing schedules from time to time is worth while.

But the most carefully selected routes may prove expensive if shipping facilities are not adequate. A delivery begins from the moment the package is wrapped, not from the moment it is put on a wagon or truck. Abnormal delivery expenses may start on the shipping floor as well as on the road. A rapid and accurate sorting of packages in the delivery room permits movable equipment to hold down costs. A western grocer who understands this fact has his shipping room divided into bins. Each order is given a bin number by the cashier before it is filled. The clerks send the goods to the proper bin to be checked over for errors and placed in baskets colored to designate the routes. Bulk staples —on hand, wrapped, in the delivery room—are assembled by the shipping clerks. The drivers simply pick out baskets of the proper color, the clerks stay in the front of the store ready for sales, and every order is checked twice.

Reductions in delivery costs, once routes and shipping facilities test up satisfactorily, probably most frequently result from better ways for handling the delivery force. The drivers have it in their power either to conserve time and equipment or to overlook wastes. The driver of a valuable truck is in a position to save his employer money or deluge him with repair bills. The men out on the road with deliveries are exactly like other men— they need incentive to keep down expenses. Their wages are usually not an incentive, but just the ordinary, expected remuneration. Therefore, distributors often find it profitable to reward the drivers with either bonuses or prizes.

The three ways for reducing delivery costs detailed above—a better handling of routes, men and shipping facilities—do not involve the customer, except as a passive recipient of packages. There are, however, two methods which do concern the purchaser—fewer returns and more "take withs." Returns and exchanges worry the big merchants at both retail and wholesale about as much as any single item listed with the rising costs. The smaller stores, on the other hand, find returns less of a problem. One of the largest stores in New England, for instance, reports about 28 per cent of its charge packages returned and nearly 30 per cent of the C. O. D. orders.

Returns necessitating a rehandling of goods in equally large percentages of the sales trouble most of the larger stores. They have been reduced in many concerns by strictly enforcing return dates and declining to re-stock goods on which special lead tags have been broken. Since there is no profit until a customer is found for wrapped goods, some concerns hire a "send again" clerk to watch returns. This clerk checks on the drivers with return post cards, corrects wrong addresses, and secures comparative prices when a customer refuses goods on the ground that they are offered cheaper elsewhere. If members of the sales force fall into the habit of sending C. O. D. packages to addresses selected at random out of the directory, in order to swell their sales records, the "S A" clerk calls a halt.

In short, no returned order is put back into stock until an effort has been made to trace causes. But the privilege to return packages, like delivery service, is today practically a condition of competition. A marked reduction in the percentage of returned orders to completed

WHAT IT COSTS *to* DELIVER *by* ELECTRICITY

"The assumed price" includes a complete vehicle with the average type of body. Increases or decreases in these prices which are not radical will not seriously alter the operation charges. These figures were presented before the Electric Vehicle Association of America by William P. Kennedy.

	VEHICLES			
Capacity, lbs.	700	1,000	2,000	3,000
Assumed price	$1,500	$2,200	$2,600	$3,000
Fixed charges—				
Interest at 6%	$ 90	$132	$156	$180
Depreciation at 10%	150	220	260	300
Fire insurance at 1%	15	22	28	30
Liability insurance	100	100	100	100
	$355	$474	$544	$610
Maintenance—				
Battery upkeep	$170	$180	$200	$240
Tire upkeep	119	158	212	225
Mechanical parts upkeep	50	60	80	90
	$339	$398	$492	$555
Garaging—				
Electric power	$120	$140	$170	$240
Storage and washing	180	180	180	180
Garage labor	100	120	160	180
	$400	$440	$510	$600
Annual operating cost	$1,094	$1,312	$1,546	$1,765
Daily cost (312 days)	$3 51	$4 20	$4 85	$5 66
Drivers, daily pay	2 00	2 00	2 50	2 50
Total daily cost	$5 51	$6 20	$7 35	$8 16

Capacity, lbs.	4,000	7,000	10,000
Assumed price	$3,400	$4,000	$4,500
Fixed charges—			
Interest at 6%	$204	$240	$270
Depreciation at 10%	340	400	450
Fire insurance at 1%	34	40	45
Liability insurance	100	100	100
	$678	$780	$865
Maintenance—			
Battery upkeep	$285	$365	$415
Tire upkeep	306	340	575
Mechanical parts upkeep	100	125	150
	$691	$830	$1,140
Garaging—			
Electric power	$300	$360	$400
Storage and washing	180	180	180
Garage labor	200	250	300
	$680	$790	$880
Annual operating cost	$2,049	$2,500	$2,885
Daily cost (312 days)	$6 57	$8 01	$9 25
Drivers, daily pay	2 50	3 00	3 00
Total daily cost	$9 07	$11 01	$12 25

sales is not to be expected. It is, however, worth the expense to scrutinize and check wrong addressing and lax delivery methods.

Cutting delivery costs by getting customers to carry away packages is largely a question of wits. Since a customer with a labeled package becomes a walking advertisement, and as well because it is more expensive, on account of the numerous "shiftings" and losses encountered, to deliver a small package than a large one, profits result when purchasers do their own delivering. A customer with money to spend is, however, a privileged character—he knows it and you know it. Use anything short of ambassadorial diplomacy in suggesting to him that you, as a distributor beset with high costs, would appreciate his carrying home a two-ounce package, and your counters will, as likely as not, never see him again.

ONE *way to reduce delivery bills is to persuade customers to carry away more packages themselves. It is a delicate task, but these methods have succeeded.*

A famous store once thought it had a plan which would entice customers into taking home the lighter parcels. The superintendent of this store decided that purchasers rightly enough objected to carrying packages bearing the firm's label. So he had a paper, distinctively ruled but without a letter of type, placed at the bundle counters. "They won't know it," he explained to the president, "but that ruled paper will be more of an advertisement than a label in red letters a foot high." Just there he fooled himself. The purchasers soon discovered that the unusual paper practically shouted the source of their purchases. They rebelled.

Successful methods for increasing the number of

"take withs" exist, however. For example, "take with" packages are wrapped in particularly attractive holiday paper at Christmas time by some stores. Customers want the paper keenly enough to carry home small purchases. The most successful plan of all, however, is to say nothing at all about delivering the smaller packages.

TYPICAL MOTOR TRUCK DELIVERY COSTS

In the upper portion of this table appear the savings actually secured by distributors who have replaced horses with trucks. Below is given the cost of a typical day's work by a power wagon and a team

Location and Business	Type of Truck	Miles per Day (av.)	Loads or Stops (pkgs.)	Cost	Horses Replaced	Saving %
East—heavy hardware..	1,000-lb. el.	32	205	$90.00 mo.	2	30
East—dry goods	3-ton gas.	46	——	9.74 day	12	45
East—dry goods	1,500 lb. gas.	55	310	.05 pkg.	4	24
Middle West—coal.....	5-ton gas.	27.92	25.13*	11.09 day	—	——
Middle West—furniture.	2-ton el.	38	——	——	8	33⅓
Middle West—dry goods	1,000-lb. gas.	53	195	.05 pkg.	—	——
Middle West—dry goods	2,000-lb. gas.	53	195	.05 pkg.	—	——
New England—dry goods	750 gas.	62	130	.08 pkg.	—	——
West—dept. store	1,000-lb. el.	40	135	——	—	40
West—groceries	3,000-lb. gas.	75†	——	——	4	$14.26‡

† for 11 hours * tons ‡ a day

THE HORSE *vs.* THE POWER WAGON

	Wagon and Team		Three-ton Truck
Original cost......................	$910.00	....	$3,500.00
Interest at 5 per cent	3.79	....	14.58
Depreciation at 15 per cent........	11.37	(at 20%)	58.33
Repairs..........................	9.20	....	14.10
Insurance........................	1.00	....	12.90
License..........................	.80	....	2.00
Feed	25.00	(tires)	31.10
Shoeing..........................	3.00	(gas.).............	31.66
Miscellaneous	9.00	(oil)	5.80
Wages (driver and jumper)........	93.00	(driver and jumper)	98.68
Rent.............................	10.00	(garage)	10.00
Cost per day (27)................	$ 6.15		$ 10.34

Simply wrap up the purchase and hand it to the customer with the usual pleasant word or two about other goods. This is sound psychology, for if you ask a customer, "Do you want this delivered?" he will answer, nine times out of ten, "Please." His attitude is reason-

able enough—he says to himself, "It does not cost anything and everybody has things delivered." But say nothing, suggest nothing, and he is not tempted to object to carrying a package of pocket size. Naturally, clerks need to use ordinary discretion. They should not expect customers to take home large packages.

There is still another successful plan for making deliveries less expensive—cooperative delivery systems. Two types have been tested: independent companies which charge the distributor in proportion to the number of packages handled for him, and cooperative arrangements between the retailers themselves.

In Boston a delivery company is making money and reducing delivery costs for several stores. R. W. Vardeman controls a company that makes a business of delivering for western retailers. Since deliveries are made in all directions at once, goods get to customers quicker, and the retailers can close up for the night earlier, than when they deliver individually. The savings made by this method have cut individual delivery costs anywhere from 25 to 40 per cent.

The retailers in twenty-nine towns and cities in Missouri and Kansas use such a system. Here are some figures on the equipment savings which result—in three towns fifty-nine wagons and one truck have been discarded:

	Stores Using	Wagons Now Used	Wagons Formerly Used
Independence, Mo...	22	11	35
Columbia, Mo.......	16	10	32
Mexico, Mo........	11	6	19

Equally worthwhile savings appear when retailers cooperate among themselves, although individual interests and desires frequently wreck arrangements of this

type. In Geneseo, New York, seven groceries, three dry goods stores and one meat market handle their deliveries cooperatively at a sixty per cent saving over previous costs.

Capably managed gasoline and electric trucks reduce delivery costs when they handle a suitable volume of business. A power wagon will lose money if managed like a team, however. Because it represents a much larger investment it involves a serious loss when idle. Therefore, quick loading and long hauls underlie motor truck delivery systems, for a fully loaded power wagon on the move is usually a money maker. Trucks have as yet failed to replace horseflesh on short hauls with numerous stops, except in the case of loads quickly handled in bulk, like coal. Horses also prove more profitable over the worst roads. With these restrictions understood, the power truck may be relied upon to offer speed, distance, capacity, extended service, advertising and immunity to weather conditions, if there is enough work to supply capacity loads. The ideal conditions for its use are long hauls, infrequent stops and large loads.

Careful routing, adequate shipping facilities, a well selected personnel, cooperative arrangements, fewer "returns," more over-the-counter deliveries, and motor trucks—these, then, are seven tested methods for cutting delivery costs. They include, as described in this article, the most widely used plans. Many distributors, however, have tried out plans of their own for getting better profits from the details of handling orders. During slack hours an Indiana retailer of men's furnishings sends his clerks on delivery trips. Ice and milk companies supply their customers with large placards which designate the quantity desired, so that the drivers need not leave their wagons to make inquiries. Others get

more than an ordinary amount of advertising out of their delivery wagons by placing on the sides bulletin boards announcing sales or by painting on the tops advertisements which attract attention from upper floors.

Taken by and large, the delivery problem is one of watchfulness for useless motions. When a wagon breaks down that has needed repairs for a long time, wasted motions result. When an order gets to the wrong door, useless motions redirect it.

So it is with all of distribution, whether at wholesale or retail. A sheriff's sale stands for hundreds of wasted motions. Therefore, in delivering their sales, as in making them and preparing for them, the men who run stores find their most attractive savings in seeing that every motion counts.

VII

BAD DEBTS AND HIDDEN LOSSES

BAD debts sent one business man on the rocks every twenty-four hours last year. These failures cost us forty thousand dollars a day—enough to hire five hundred million dollars of capital. And 1913 was not an abnormal year.

Add these fourteen millions to the cost of supervision, plus the interest charges, and you have the price we pay for credit. It is not an unreasonable amount, either, when matched with the advantages secured. Take the retailer as a typical user of credit in satisfying the consumer's wants. His credit connections are two-sided: he receives datings from manufacturers or wholesalers and probably gives his customers accommodations. This means that the firms in the primary markets have some of their assets on the retailers' shelves and that the retailers transfer a portion of their stocks from their own shelves to customers' homes.

It is evident enough that an increase in these goods at customers' homes causes smaller net profits, for larger stocks, whether held within the stores, at warehouses, or in customers' hands, slow down the turnover rate. Suppose, for the sake of illustration, that a store is selling one thousand dollars' worth of merchandise a day at a cost of doing business equal to twenty per cent of these

sales and at a gross profit of twenty-five per cent. Assume the average stock on hand to be worth thirty thousand dollars at retail, or enough to care for thirty days' sales. Now, if this store also allows charge account customers to keep additional stock worth twenty thousand dollars—twenty days' sales—at their homes, on credit, its net profits will be: $\frac{25-20}{30+20}\times 360$, or 36%.

Next assume that the manager of the store allows the total of the accounts due from customers to climb until it equals thirty thousand dollars—thirty days' sales—and see what happens to his net profit: $\frac{25-20}{30+30}\times 360$, or 30%. A drop of six per cent.

Thus credit is demonstrated to be a merchandising problem, in principle exactly like the rest of the activities of the factory or store. It requires capital—and the man who has capital enough to keep some of his stock in customers' cupboards will probably in the long run interest a more profitable trade than his competitor who cannot secure money enough to offer this convenience.

Since the capital taken by the credit end of a concern adds interest charges to the costs, in addition to the supervisory expenses and losses from defaulted debts, business men ask: "Why not sell for cash?" Twenty-five years ago the retailers agitated this "Cash or credit?" question; today, with rising costs pressing down net profits, they again turn to it. Certain classes of trade—willing to carry home purchases and forego expensive service—buy for cash. Stores stocked and managed to meet their demands succeed on a cash basis. But when consumers able and willing to pay for free delivery, varied service, and charge account facilities are

handled, an attempt to sell exclusively for cash usually falls flat. It is admittedly more convenient to charge

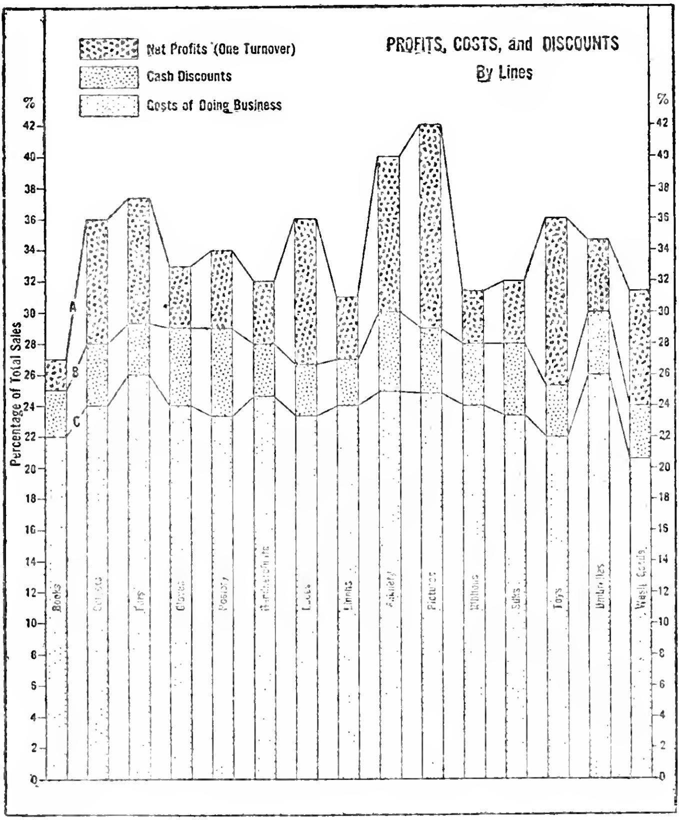


FIGURE IX: This and the chart on page 119 graphically average cost figures gathered by SYSTEM, *various organizations and individual investigators. The lines A, B and C join the profits, costs and discounts*

purchases; the standard of living has advanced until it apparently includes credit as a matter of course. The

LOSS IN WRAPPING

Shrinkage and losses in supplies like paper come from lack of instruction for clerks in right methods of wrapping. Modern equipment automatically prevents many of these wastes.

practice of ordering by telephone almost automatically increases credit transactions.

As a result, credit has become "cheap" and accounts are frequently solicited. The average merchant finds that he is practically forced to either act as banker for a large portion of the community's transactions or lose trade.

HOW *much do you lose a year through bad debts? If you sell on credit, it is probably a noticeable item. Here are ways by which others have reduced it.*

It, therefore, becomes increasingly difficult to hold to a safe balance—sane credits and a maximum sales volume. The danger signal for unwise credits is the loss from bad debts, provided the capital involved and the supervisory charges do not overtax the resources of the particular business considered. The individual merchant's resources determine how much he may safely invest in credit or stock in customers' homes; the average credit department costs from four-tenths to six-tenths of one per cent of the net charge sales.

The amount of loss which can safely be taken from bad debts also varies with the type of trade handled and

LOSS IN TYING

There is a wrong and right way to wrap and tie a parcel. At a common wrapping counter much waste could be reduced by making the most skillful packer the instructor for a group.

the class of goods stocked. F. A. Pruitt of Edinburgh says that he lost five thousand dollars in twenty years through bad debts and cut his losses one hundred dollars a year by dropping one-half of his credit accounts. John Harvey, secretary of the Retail Grocers' Association of Kansas City, figures that a one per cent loss is normal for an eighteen-thousand-dollars-a-year grocery business. John A. Green, secretary of the National Retail Grocers' Association, believes a lower figure is attainable. He says: "We, as an organization, have done wonderful things along educational lines. No longer do the losses from accounts figure in the cost of doing business. Reports from all over the country tell us that the loss from this source is from one-tenth of one per cent to one-quarter of one per cent."

Evidently, then, practically everybody agrees that a credit business brings about losses from bad debts. How much this loss will be in individual cases depends on local conditions and whether a generous or a close credit policy is followed. But loss is to be expected. Careful business men anticipate this loss and build a reserve in cash to take care of it by laying aside some of the money from sales. Further, when the loss goes beyond normal

LOSS IN WEIGHING

Prepackaging of goods reduces losses from overweights. Accuracy should be the inflexible rule in measuring. Modern scales go a long way in eliminating the "personal equation."

limits, they recognize that something is wrong with their credit policy and take in sail.

To fix the amount to put away as a reserve and the figure that will measure normal losses requires standards which cross section hundreds of going stores. Averages that merge individual characteristics into normal percentages then appear. Careful investigators have analyzed credit figures from the books of about one thousand stores. The resulting standards, after allowance has been made for unusual local factors, supply a rough check for gauging retail credit methods and determining the proper reserves. These standards follow—they represent percentages of the net total sales and only refer to totals of accounts actually written off the books as worthless:

Furniture	1.94%
Groceries	.47%
Clothing	.34%
Vehicles and implements	.33%
Hardware	.31%
Jewelry	.21%
Dry goods	.21%
Department stores	.19%
Drugs	.19%
Shoes	.10%
Variety goods	no loss

LOSS IN CUTTING

The salesman who delivers more than thirty-six inches for every yard sold robs his employer's profit account. ''Good measure'' is the easiest and most dangerous of store habits.

When losses from bad debts mount above these standards, and there are no explanatory local conditions, it is at least reasonable to cast about for ways of reducing them. Keeping up with rising costs is a disheartening grind unless all avoidable losses have been carefully cut from your cost of doing business. Eliminating unnecessary leaks opens the way for using broader plans that build profits in spite of higher costs.

The best way to reduce costs through checking losses is to study the methods of others who have been successful in meeting corresponding situations. In addition to these specific figures on losses, investigation has developed the most successful methods for reducing this expense used by two hundred and eighty-six merchants. These tested methods, with but three exceptions, group under six broad policies: (1) securing a distinct understanding of terms and limits; (2) handling customers according to their individual situations; (3) cooperating with fellow merchants; (4) making collections monthly; (5) being impartial; and (6) securing new accounts on the basis of the additional convenience, instead of the unusual ease, with which goods may be purchased.

It will prove profitable to discuss in detail each of these six plans which help control rising costs by lowering the number of accounts that go bad. Take the first —seeing that the proposition is clearly understood when the account is opened. After deciding whether your credit policy is going to be generous or restricted, the next step is to impress upon customers rules which will carry out these plans. When a man asks for credit, he is more often than not in the position of seeking a favor —you can "talk turkey" to him if you use ordinary tact.

Credit should not be given if it does not mean an advantage to the merchant; and if extended to a consumer who has neither the restraint nor the funds to use a charge account properly, trouble is ahead. Not long ago a man failed for thirty cents on the dollar in Rushville because he was so anxious to do business at any cost that he lost ten thousand dollars through unwise credits in two years.

It is harmful, of course, unless the capital in the business is being overtaxed, to go too far in refusing credit, once it has been decided to grant terms. The average man is honest, and the law of averages would be favorable to granting credit after a single glance, provided investigations were made later. But a careful, pleasant, tactful and clean cut explanation that credit means keeping a certain amount of stock outside the business, that only a limited amount of capital is available for such use, and that it is therefore necessary to receive money on charge accounts regularly according to definite rules, will help the new credit purchaser to live up to his intention to pay promptly.

The second method of the six that reduced credit losses prescribes that the personalities of consumers be

considered. There is danger in relying too strongly on postage stamps. It is quite possible for the merchant with a small trade to know every customer on his books, and the larger firms can at least keep card records detailing characteristics and previous relations. Both practices make it possible to adapt collection methods to the delinquent, once it becomes necessary to use them. The man behind with his bills must be brought to the paying mood, encouraged to exert effort enough to hand over money, and shown that the merchant is willing to help him keep his promises to pay, even to the extent of arranging for instalment payments.

SIX *methods are here given for reducing losses from bad debts. They have been tried out by two hundred and eighty-five merchants and found valuable.*

Cooperating with fellow merchants is the third method. Local credit bureaus, either as independent organizations or branches of associations of commerce, offer a means of bringing together every merchant's experience with the credit applicant. A capable secretary to handle the reports, a simple code for reporting results, card files for the data, loose-leaf books for the ratings, a determination to deny credit when the ratings are adverse, and an earnest interest in sending information to the secretary, will make a success of a bureau of this type. When the bureau is opened slow pays may be given a jogging up by writing them that a list of delinquents must be sent to the secretary. Often, too, the bureau can bring troublesome accounts to time by sending out impartial letters on its letterhead. Dealers in several lines are now organized nationally to handle collections and catch "skips."

President McGlasson of the National Wholesale

Grocers' Association says that when he asks retailers, "When did you send a statement to this party?" more than a few answer, "Oh, three or four months ago—he don't pay any attention to statements." The fourth method of the successful six has to do with just such a situation—the distributor who is inattentive to the overdue money on his books has little reason to expect that he will get it. Prompt collections promote the habit of paying, and an absolutely definite program well understood by all concerned, will do a world of good in checking credit losses.

Customers who are allowed to think they do merchants a favor by paying bills make poor risks. When their bills become heavy they as like as not shift to a competitor or start buying from catalog houses. Many investigators feel that slack retail collection methods often turn well intentioned consumers into the deadbeat class.

When a customer falls behind, an immediate investigation may uncover the all-important information needed—why he did not pay. If a courteous personal call can not be made, a short series—say four—of cumulative letters, which make it plain that they are leading up to more radical action if indifference continues, should go out promptly and the radical action follow absolutely on schedule, if necessary. The two hundred and eighty-six merchants find that promptness of this sort keeps accounts out of agencies and guides consumers toward frank, business-like credit transactions.

Fifth is the elimination of all partiality. Favoritism makes for trouble in credit affairs exactly as in all others. The small retailer who carries "pets" on his books, as he calls them, will find that the competitor who treats everybody alike gets more trade at a better net profit.

Last of the six methods is the admonition to secure credit accounts on the basis that they afford greater convenience and not by urging how easy it is to get goods

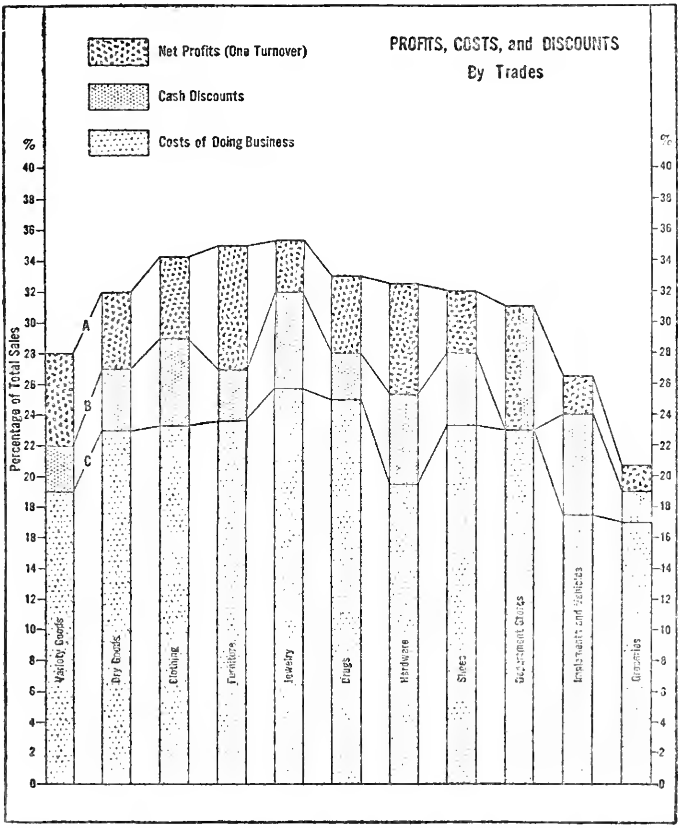


FIGURE X: It will be noticed that the department store figures are unusual. This is because in large stores the cash discounts pay a portion of the costs and all of the net profits. *(See the chart on page 111)*

through them. There is no doubt but that carefully handled credit facilities are worth advertising. They

supply the small retailer with one of his keenest weapons against mail-order competition. Still, stating openly that a credit account makes the gratification of wishes a matter of words is sure to lead to defaulted debts and slow collections.

Thus the two hundred odd retailers check credit losses with these six proved methods—clean-cut understandings; personality; cooperation; promptness; impartiality; and just selling arguments. Now how about the houses in the primary markets selling to these retailers? There are experienced business men who feel that the jobbers give the retailers too much credit, thus allowing them to go into business with assets far too weak.

Nevertheless, investigation shows that the makers and the wholesale distributors who are holding their credit losses below the average for their lines rigidly enforce four practices. They instruct their customers in the value of rapid turnovers; keep in close touch with purchasers; explain the value of accurate statements of assets and liabilities; and point out the better credit standing which will result from a concentration of purchases.

With the first of these methods in mind, John G. Shedd, president of Marshall Field and Company, states that his firm has done, in his opinion, considerable benefit to the average credit standing in the Middle West by holding their accounts to thirty days when competition offers sixty. Mr. Shedd's wholesale selling organization shows retailers the dollars-and-cents value of turning stocks fast.

Knowledge of the risk is nothing more than a broader treatment of the second method used by the two hundred and eighty-six retailers. When a retailer is acquainted

with the credit managers for his sources, he will secure much helpful advice from them and not wait for inquiries about causes if he has to let bills run over.

Next is emphasized the importance of winning retailers over to the reasonableness of making accurate reports on their enterprise.

Concentrating purchases brings advantages to all involved. The wholesalers or manufacturers get larger and steadier volumes and the retailers secure more attention because their accounts are worth while.

So much for standards that measure credit losses and tried-out methods for reducing them. Bad debts are not the only losses that help to make costs rise. Hidden leaks abound in any business—they range from incorrect freight classifications down through tardy employees, bad checks, poor packing, fires and shrinkage, to neglected discounts. The illustrations accompanying this chapter show how careful employees can reduce the commonest repeated losses that amount to important sums during a year.

Neglected discounts are probably as important as any of these hidden losses. Exactly as the retailer is willing to invest some of his capital in merchandise held by customers who owe him on charge accounts, the wholesaler or manufacturer usually arranges to keep some of his assets in the stores of the retailers on his books. If a retailer will relieve him of this practice, and agree to carry these stocks himself, the supplier quite naturally is glad to pay for the capital released—to give a discount, in other words.

Losses from fires amount to five times the cost of all the failures in the entire country, but fortunately they can be covered at a small cost by combining with hundreds of others through a fire insurance company.

Every careful business man, therefore, keeps his tangible assets safely covered—usually well above the co-insurance limit—in one or more sound companies. If they are watchful, those who have extended credit to a careless merchant will see that he follows the same plan.

Still more economical from the social standpoint—since over-the-counter prices must finally pay for losses in the factories and stores—are devices which may now be secured for checking fires before they spread. These inventions not only reduce the fire risk and, therefore, bring a dollars-and-cents saving in insurance premiums, but—which is still more important—they also protect the regular flow of trade from expensive interruptions.

All these ways for reducing the varied hidden losses that weaken every business to some extent, as well as the ten specific methods used by successful retailers, wholesalers, and manufacturers in warding off an excessive expense from defaulted accounts, rest on the fact that waste, when eliminated, becomes a saving. The rise in costs of doing business is narrowing the profit margin. Many firms find that a volume heretofore satisfactory now fails to net a worth-while profit. Their very existence depends, partially at least, on checking expenses against standard costs of doing business and using the methods of those who are making their regular profits in spite of rising costs to turn into savings the losses which are indicated by the averages.

VIII

KEEPING DOWN MISCELLANEOUS EXPENSE

"EXPENSES are abnormal at your branch; you spend too much for solder"—this is the gist of a message sent by the Standard Oil Company to its offices in New England. Solder is a small item, relatively, in the Standard Oil budget—a large budget, one of the largest in this country. But nevertheless the home office had records of solder costs that caught the excessive expense in New England. The local manager reported that he was unable to locate the cause. Then the home office, sure of its records, sent an expert investigator who discovered that the openings through which the solder poured were a fraction of an inch larger than they should have been.

Doubtless the Standard Oil makes money for a number of reasons in addition to the exceptionally good one that it watches the smallest expense items carefully. Still the fact that its officials know accurately what the solder bills should amount to, indicates a care in management to which might probably be assigned a majority of the reasons that back its success. Profits have been long in this country; possibly on that account we are generous about the small items in the cost of doing business: the supply bills, the light bills, the general expense bills, and the shrinkage losses.

Now costs are rising. They cut into the profits. We find that the profits cannot be increased to satisfy these rising costs. We discover that the days of long profits are gone and that they will not return. This all means that we must tighten up on the small items, run our enterprises with the careful economy practiced in the older countries, and push for larger volumes or faster turnovers that will make the gains from the narrower profits attractive.

Years ago, before competition concentrated, there was more than trade enough for everybody. The undeveloped condition of our transportation facilities often made it necessary to be content with exceedingly slow stock turns. Then there was an excuse for long profits. We face new conditions today.

Average costs for the main items in the cost of doing business, as shown by wide investigation, have already been discussed. With these averages have appeared those methods for meeting rising costs which investigators found the most successful merchants used. This chapter gives averages for the remaining items in the cost of doing business and tells how ninety-one merchants with going concerns in fourteen states handle them. These items are: (1) general expenses; (2) heat, light and power; (3) supplies; and, (4) depreciation and shrinkage.

General expenses, the first of these items which, although often but small percentages of the sales volumes, frequently turn the balance between profit and loss, include under the classification here used the buying expenses, interest on the investment, salaries which cannot be definitely allocated, and miscellaneous general cost, such as the returned goods expense or freight overcharges. The interest on the investment is figured on

the average amount of capital actively used in the business. The cost of these charges, averaged from a thousand odd stores, is the following percentage of the total net sales volume in the twelve lines investigated:

Line	Percentage of Net Sales Volume
Department stores	6.38%
Drugs	4.49%
Shoes	4.36%
Dry goods	4.15%
Jewelry	3.95%
Mail order houses	2.42%
Clothing	2.31%
Hardware	2.01%
Furniture	1.10%
Variety goods	.91%
Vehicles and implements	.71%
Groceries	.45%

Although the general expenses will vary with the local conditions encountered in each competitive field, these averages offer standards against which roughly to check the expenses remaining after dealing with the main items. Administrative, unallocated and buying salaries vary with each store, however, and are not adaptable to definite or widely applicable methods. But interest on the investment appears in the same phases in all the stores contributing to the averages. Without a single exception the ninety-one merchants particularly consulted on this problem by the investigators charge interest at market rates for every dollar of their investments before they count a net profit. They figure exactly how much they put into the business, multiply it by the usual interest rate, and charge the business with the resulting amount. Some of them build up reserves with this interest money, others re-invest it in the business, and not a few put it into their personal bank accounts. But not one of them makes the mistake

of neglecting to secure ordinary workaday hire for his money in addition to reasonable profits.

Freight overcharges form another item among the general expenses in the handling of which the successful merchants use methods that can be standardized. Sixty-four of the ninety-one merchants check over all freight charges against official classification sheets and apply to the railroads for allowances when mistakes are discovered. Since freight classifications are complicated, a majority of those with small stores turn their bills over to agencies which make a business of detecting mistakes in freight bills. One merchant secured $273.45 from the railroads for errors in a batch of old bills sent to an agency of this type managed by a trade paper. The railroads take the classifications most advantageous to them, of course, but they are always prepared to rectify errors backed by reasonable proof.

HARRIMAN *saved stray paper clips; Wanamaker made scratch paper from old envelopes. These instances emphasize the little economies in retailing.*

In charging the actual freight bills, with but five exceptions, these merchants include them in the cost of the goods and not in the cost of doing business. They quite rightly consider the freight charges as part of their investment in goods. Whenever possible they charge the freight directly to the goods concerned and never prorate or average the freight when they can avoid doing so. Their object is to prorate according to the resulting benefits.

The cost of rehandling returned goods is a general expense encountered by most distributors. The jobbers and wholesalers usually urge the retailers to write for instructions before returning goods—possibly a satisfac-

tory allowance or delivery to another customer can be arranged. There is no objection from the retailer to

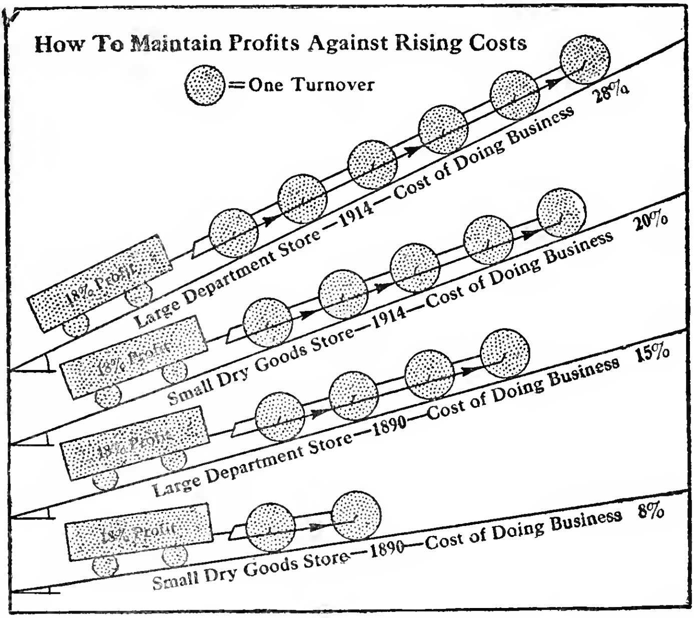
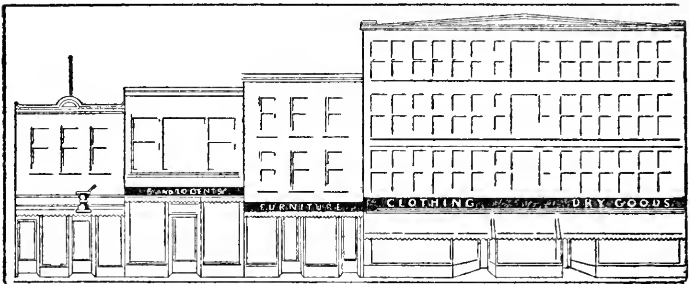


FIGURE XI: This chart analyzes the tendency that apparently dominates modern merchandising. Distributors now strive to equal with a number of small profits the single generous gain that could be taken years ago

doing this so long as the jobber has not made needless substitutions without instructions or taken a chance on shipping undesired goods because his salesmen were oversampled.

With retailers, returned goods are more of a problem. The department stores are particularly troubled. One large store in the East reports that on the average 29.5 per cent of its C. O. D. purchases are returned and 28.5 per cent of the orders from customers with

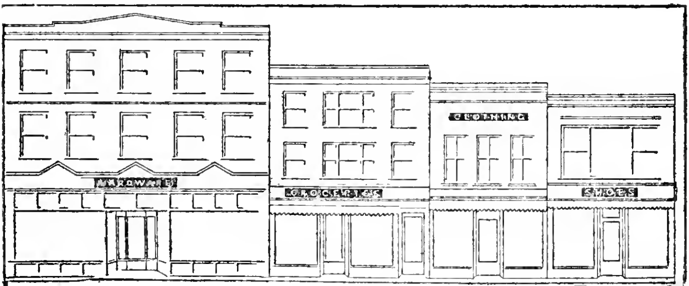


DRUGS	5-25c GOODS	FURNITURE	DRY GOODS	..... LINES
24.65%	17.76%	26.51%	23.05%	.Total Cost to Do Business
4.49%	.91%	1.10%	4.15%	...General Expenses
.69%	.81%	.92%	.54%	...Heat, Light, Power
.47%	.06%	2.14%	1.11%	...Shrinkage, Depreciation
.36%	.21%	.41%	.38%	...Supplies

FIGURE IX: These percentages are averaged from figures secured by studying the books and records of more than a thousand stores. The concerns selected typify conditions prevailing in the various lines, being both big

charge accounts. Since the privilege of returning goods without question is now widely extended to consumers, about all that can be done by the merchant who desires to meet his competition is to prevent the return of valuable goods after they have been used and to decline to receive returned goods when he is satisfied the customer is repeatedly taking advantage of him. The returns resulting from careless addresses and deliveries may be properly charged to delivery costs and their number reduced by checking on the delivery methods.

The cost of repair departments is usually charged among the general expenses. Only twenty-eight of the merchants whose methods are analyzed in this chapter have repair departments. Twenty of the twenty-eight report that their repair departments just about take care of themselves and that they do not expect much more of them. The other eight take an opposite view and declare that they make money on repairs. Several go



LINES	HARDWARE	GROCERIES	CLOTHING	SHOES
Total Cost to Do Business	20.41%	17.91%	23.27%	23.22%
General Expenses	2.01%	.45%	2.31%	4.36%
Heat, Light, Power	.43%	.39%	.62%	1.10%
Shrinkage, Depreciation	.52%	.76%	2.16%	.50%
Supplies	.60%	.37%	.43%	.30%

and little, and located in cities large and small. The percentages give the retailer approximate standards against which to check corresponding items in order to find out in a general way whether or not his costs are unduly large

further and state that they find the repair departments active trade-building forces. These facts apparently indicate that in some lines, like jewelry, shoes, and hardware, there is an opportunity in vigorously pushing and advertising the repair department. One jeweler, who is particularly confident this is true, sends out the following letter in the interests of his repair department: "On (insert date) we repaired your watch. We do not remember having repaired it since. A watch is a most delicate piece of mechanism and in the performance of its severe duties deserves good care—cleaning, adjusting, oiling, and so on. It may seem impossible, but it is nevertheless a fact, that the balance wheel of a watch travels over three thousand five hundred and fifty miles a year and makes over a hundred and fifty million beats during that time.

"The entire works are not a moment without friction and this little watch has to bear—proportionate with

its weight—more than any wagon can possibly stand. Is it any wonder that a watch needs cleaning every twelve or eighteen months?

"You know us, you know our methods. You know that work done at this store is well done. To the best of our knowledge your watch gave satisfaction. We want it to do so, and in case that a watch is not satisfactory, we will thank you to return it so that we can make it perfectly satisfactory. Wouldn't it be a good plan to bring your watch in?"

Heat, light, and power is the second of the four expense items listed. It is worth noticing that in but a few instances was this item found to be in excess of one per cent of the net sales. Below this one per cent, because the different stocks require varying amounts of light, a wide range of percentages appeared. Averaged for the various lines, these percentages give the following norms against which similar expenses may be advantageously checked in a general way:

Line	Percentage of Net Sales Volume
Shoes	1.10%
Furniture	.92%
Variety goods	.81%
Drugs	.69%
Clothing	.62%
Jewelry	.61%
Dry goods	.54%
Vehicles and implements	.51%
Hardware	.43%
Groceries	.39%
Department stores	.22%
Mail order houses	.11%

Although the lighting bills take but a small portion of the total operating costs they offer attractive opportunities to secure economies. The power and heating

costs, on the other hand, are more nearly standardized, and there is a smaller leeway for economies after using careful management and standard equipment. The advance in lighting efficiency is constant—what was eco-

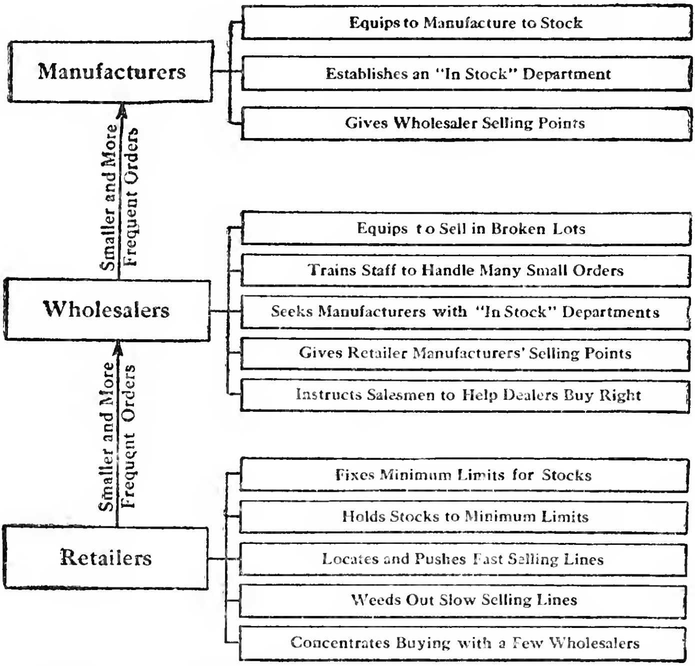


FIGURE XIII: Miscellaneous expenses possibly hold more dangers today than ever before because there are more orders. Frequent orders, as here illustrated, result from the universal desire to turn stocks faster

nomical yesterday may be extravagant tomorrow because of new discoveries. Electric lights are only about thirty-four years old and the lights now distributed test to results fifty thousand times better than those obtained from the first produced. And still the lights we have today are not over twenty-five per cent efficient.

Carbon lamps, formerly widely used, were generally purchased according to their candle power. That is not an exact method, since the lamps cannot be expected to give their rated candle power after they have been used for a time. As they age, they use more electricity per candle power and gradually give less and less light.

It is more accurate to purchase electric lamps according to the amount of electricity they actually consume. This consumption is given in watts, which are the units used in measuring electricity, just as gallons are the units for gauging water. Since a watt is a small quantity of electricity, the kilowatt, or 1,000 watts, is more widely used in actual practice.

The newer so-called "tungsten lamps" are generally rated according to the amount of electricity they consume in watts. One of the improvements these lamps are intended to embody is, moreover, a rate of consumption which varies only slightly during the life of the lamps. They consume about 1.2 watts per candle power, and carbon lamps, 3.1 watts per candle power.

The following table shows the normal relation between watts and candle power for standard tungsten lamps and the number of watts that would be used in carbon lamps to produce the same amount of light:

Type	Approximate candle power	Size of tungsten lamp, watts	Watts a carbon lamp would use to give same amount of light
Regular	11.5	15	35.65
Regular	16.0	20	49.60
Regular	21.4	25	66.34
Regular	34.2	40	106.02
Regular	53.6	60	166.16
Regular	92.6	100	287.06
Round bulb	11.5	15	35.65
Round bulb	21.4	25	66.34
Round bulb	34.2	40	106.02
Round bulb	53.6	60	166.16
Tubular	21.4	25	66.34

Therefore the merchant who watches for the development of more efficient lighting facilities frequently secures attractive savings. The tungsten filament electric lamps with which carbon equipment may now be replaced offer a worthwhile saving, and as soon as the nitrogen gas filled lamps now available for large installations are widely distributed in the small sizes, still further reductions in lighting bills will result. Nitrogen filled tungsten electric lights have already been tested by several stores for outside illumination and lighting large areas at savings which approach eighty per cent of the former costs.

In addition to the savings possible through using the most economical equipment, it is often practicable to economize by rearranging installations and bettering related factors. Sears, Roebuck and Company, for example, thought the lighting item in their cost of doing business important enough to warrant a careful study of the reflecting qualities of the walls and ceilings in their Chicago headquarters. They found that the efficiency of the lights in one room increased fifty per cent after the walls and the ceiling were repainted from a dark color to a cream tint. It is also frequently possible to reduce lighting bills by eliminating a few lamps.

Seventy-eight out of ninety-one merchants reported that they do not clean their electric or gas lighting equipment every two months. Sears, Roebuck and Company have, on the other hand, made investigations which establish that a two months' accumulation of dust decreases the efficiency of their lights between 22.5 per cent and 23.2 per cent. They clean their lamps six times a year without fail, at an average cost of two cents for each fixture, whether direct or indirect. It is their belief that it is worth twelve cents a lamp a year to

avoid losing more than twenty-four per cent of the equipment's efficiency.

As this small detailed practice of the world's largest mail order house indicates, to secure the highest possible efficiency from lighting equipment is only second in importance to managing it in the most economical manner. Years ago the question was merely how to get light, now it is how to get the light that gives the customer—and the employee—the most satisfaction and the least fatigue. Where before there was but one method of lighting, the merchant may now select from among a variety: the orange of gas and oil, the yellow of incandescent gas and electric lights; the blue white of carbons; the deep yellow of the flaming arc; and others. Direct, indirect, and semi-direct systems are available and have their individual characteristics.

Although daylight cannot yet be closely simulated in equipment suitable for extended installations, screen filters and special diffusing globes make it possible to better the results of yesterday. All of these various technical problems related to proper store illumination have been carefully studied and proper modifications for the store sizes accurately summarized. Many public utility companies gladly place knowledge of this type at the disposal of merchants.

Supplies—third of the four items here considered—seldom exceed one per cent of the net sales and in the majority of stores they are below one-half of one per cent. The following averages for the twelve lines offer standards that make tentative comparisons possible—they include incidentals like paper, twine, boxes, water, and all the additional costs needed to keep the business going, but which are neither covered in the other expense classifications discussed elsewhere in this book,

nor used for purposes the nature of which makes it possible to allocate them under one or another of the main items customarily found in expense accounts:

Line	Percentage of Total Net Sales
Jewelry	.89%
Hardware	.60%
Clothing	.43%
Vehicles and implements	.42%
Furniture	.41%
Dry goods	.38%
Groceries.	.37%
Drugs	.36%
Mail order houses	.34%
Department stores	.32%
Boots and shoes	.30%
Variety goods	.21%

Less than one-half of one per cent of the net sales in most lines—as shown above—and scattered over many items, the supply bills offer a temptation to spend unnecessarily. Even though the amount of money involved in each instance may be small, the aggregate is worth attention. No general methods for saving on supplies, other than watchfulness and wide-awake adaptability, were found in use.

With very few exceptions this watchfulness resulted in individual plans and short cuts that save a little each day. One merchant's bookkeeper makes ink from discarded typewriter ribbons; an office manager saved $615.00 a year by purchasing a seventeen-dollar filter that made it possible to replace special bottled water with city water in his offices; a treasurer economized by re-directing letters intended for branch offices, instead of remailing them; a secretary devised large envelopes, perforated with large holes that assured the removal of all the contents, for speeding up the circulation of interhouse papers; and the president of a large mail

order house made an economy worth seventy-five thousand dollars annually by using a shade smaller type in his huge catalog. So in all lines—the reward of watching the small expenses carefully, with an eye for better ways, is larger profits.

DEPRECIATION *is figured by most merchants, but some make the mistake of disregarding it. These methods will suggest ideas to both groups.*

Last among the four items discussed are losses from depreciation and shrinkage. These include depreciation on all equipment, irregular losses from stock, and stock depreciation not regularly covered by routine mark-downs. Averaged for lines and through the figures secured by the investigation, they give the following standards helpful in approximating the reasonableness of individual losses:

Line	Percentage of Total Net Sales
Clothing	2.16%
Furniture	2.14%
Department stores	1.61%
Dry goods	1.11%
Jewelry	.95%
Groceries	.76%
Vehicles and implements	.62%
Hardware	.52%
Shoes	.50%
Drugs	.47%
Mail order houses	.12%
Variety goods	.06%

No agreement appeared among the ninety-one merchants on methods for figuring depreciation. They all check direct shrinkage by watchfulness at the counters and in the receiving rooms, and by handling stock subject to rapid depreciation with unusual care supplemented with the advice of manufacturers. They also

uniformly charge repairs caused by general wear or tear to ordinary operating accounts and keep the reserves resulting from depreciation free for use in making replacements. Some of them use the reserves in taking discounts. Without an exception they keep mark-down records as regular accounts so that from them they can predict the amount of the mark-downs normally taken during any season and cover it in their mark-ups. They hold that goods are only worth what they will bring and inventory at actual selling values, not original mark-ups.

But they do not figure the actual depreciation written off in any uniform way, although they agree three factors are involved: general decay; the probability of more efficient types developing, or obsolescence; and the possibility of the type becoming inadequate on account of the business expanding. Under these conditions they predict the period of probable usefulness, taking into consideration quality, task and management.

The next step is to spread the depreciation over this period of usefulness—and in doing this their methods vary. Some simply divide the original capital outlay by the number of years in the estimated period of usefulness and write off the result each year. Others take an unusually heavy depreciation the first year and then figure the remaining depreciation by the first group's method.

A third group uses what is probably the most practical and accurate plan. They first subtract from the original capital investment what they figure will be the scrap or second-hand value after the period of usefulness has elapsed and divide this remainder by the number of years of expected life. The result is written off each year until the original cost less the estimated residual value is covered. Many merely take an arbitrary

figure. But, though their methods differ, not one neglects to build up depreciation reserves.

These four items (general expenses; heat, lighting and power; supplies; and depreciation and shrinkage) are the small expenses—the costs too often passed over with scant or hasty consideration. Yet actual instances demonstrate that the Standard Oil Company and Sears, Roebuck and Company—concerns together handling tens of millions of dollars each week—find the little expenses worth attention. This is a straw that indicates the trend of business development—it is becoming necessary to watch more carefully the dollars and cents at work in distribution. And as a matter of fact it is frequently possible to make dollars by saving them.

PART IV

MAKING MONEY IN SPITE OF HIGHER COSTS

IX

POLICIES IN RETAIL COST KEEPING

ALTMAN—although he is dead, his big retail business keeps his name alive—worked out systems which tell at a glance the yardage left in the bolts on shelves floors below. Altman incessantly used figures, facts, records and statistics. Wanamaker has figures, too, but he centers on merchandising—sales plans, advertising, stocks and buying.

And so it is among merchants. There is but one end—profits—and many different means. Some—the analyzers—use records as means; others—the salesmen—make selling the means and rely on records for no more than a varying amount of guidance. Between these extremes is the average American merchant.

For him it is obviously impossible to lay down a cut and dried system. That would be attempting to fit his business to a cost system, while he may either rely on costs extensively, consult them only for rough and ready guidance, or make good on a sheer knack for selling. The cost system must be shaped to the merchant, not the merchant to the cost system. And, to say the same thing another way, the type of cost system a merchant will pick depends on his business characteristics.

Of course there are certain accounting principles which should be present in every cost system if it is to prove

worth while, just as there are certain principles which a man must uphold if he is to succeed in the long run under average conditions. First of all, a cost system is not worth much if it does not work through the entire set of books in connection with which it is used. If it stops half way or fails to take into consideration items such as depreciation and leakage, there is considerable danger of its doing more harm than good.

Secondly, a cost system will work itself to death, eat off its own head, if it is not simple. Probably the worth of a cost system is measured more by the cheapness with which it gets needed facts quite truthfully than by any other factor. Simplicity prescribes a certain amount of give and take in the working of a cost system—figures need not be absolutely exact when there is no necessity of absolute exactness. A good many merchants are said to have spent—and there is probably more than a grain of truth to it—the better years of their lives scratching pen against paper in order to achieve the round about and needless exactness required by their cost systems.

There is of course a point at which the virtue of rough-and-readiness in cost system facts may become an exceedingly disastrous characteristic. This is a question for everyday logic to settle—or, possibly, the advice of a broad minded expert.

Perhaps an instance will help to explain. On the way from the elevator to the private office of a merchant who is rapidly making himself and his three sons millionaires in an important middle-western city, I passed the desk of his credit manager. The credit manager was taking cash from a customer.

One of the first subjects this merchant and I happened to discuss was the cost of delivering packages by a combined fast heavy gasoline truck and light electric

wagon service. He showed sheet after sheet of costs concerning the delivery of packages by this system, arranged from varied angles. Although these figures were in-

Stock W. Hosiery

Month	Sales	Inventory	Turns	Mku.	Month	Sales	Inventory	Turns	Mku.
Jan. '13	1400.16	320.17	2.9	32.1					
Feb.	1780.17	400.04	2.4	31.5					
March									
Apr.									
May									
June									
July									
Aug									
Sept.									
Oct.									
Nov									
Dec									
Jan									
Feb									
March									

Stock Gloves (At Cost)
Stock Plan From January 1st To July 1st

Average Sales To July 1st		$1200
Ten Per Cent Estimated Increase		140
Estimated Stock On July 1st	$200	
Inventory On Jan. 1st	250	
Surplus for Snaps	200	
	$650	1340
		650
		690
Open To Buy For 3 Turns		$230
Open To Buy For Each Turn		

Approximate Stock Limit (Open to Buy $230 Plus Average Stock On Hand $225) = $455

FORMS I and II: These forms are from the cost system of a merchant who depends on figures for an unusual amount of assistance. The larger supplies turnover facts. The smaller assembles a six months' stock plan

teresting, it was evident that a good many of them satisfied no earthly practical use under ordinary circumstances.

So I said, "You have a very detailed cost system."

"Yes," he replied, "it is a wonder. But I guess it takes about all the time of my younger son—you see he is specializing on that side of the business."

The credit manager and the cash were in my mind. I could not resist the need of mentioning it, and said: "Your cost system is certainly specific, but I find my opinion of all these delivery figures, no matter how detailed they are, considerably lowered by the fact that

your statistics of bad accounts depend on the honesty of a man who does not deserve to be put under temptation. Half your doubtful accounts, although perfectly good, could be turned into dead losses through no cause of your customers. Your system would report these facts in minute detail—except the single fact that the customers were not to blame. I noticed your credit manager taking cash. Of course, he is also writing off accounts.''

He was all attention at once and took statistics on overdue accounts out of the top drawer of his desk, where they were ready at hand. He had been worrying about the situation himself, but hesitated to question the elaborate cost system worked out by his son. His figures on bad debt losses showed that the credit manager controlled over twenty thousand dollars in that way, yet gave no bond and received fifty dollars a week. It happened that the credit manager, like nine out of ten men in business, was absolutely honest. Without doubt the thought of taking money from a customer and then writing off the account had never entered his mind. Yet here was a definite policy need confused with the detail of a system of accounting.

COST *systems are somewhat of a mystery to most of us. But these simple characteristics of all of them make it easy to analyze your cost accounting needs.*

In addition to thoroughness and simplicity, a third basic need of cost systems is comparisons. Facts by themselves are helpful to a greater or less degree—depending upon the amount of experience with which the merchant is able to consider them—but in the end it is comparisons that count. A cost system may take the entire time of ten experts to collect figures from every

conceivable angle and from every conceivable source—and still fall short of its purposes if it fails to supply comparisons.

I know of a store that boasts a fifteen-thousand-dollar a year treasurer, a five-thousand-dollar a year assistant treasurer, a four-thousand-dollar a year head accountant, and eight people who give all their time to operating its cost system. One man spends the eight hours of an eight hour day copying on a typewriter the figures unearthed by this indefatigable band. Another young man sits the day through before a huge glass-covered expense classification, fitting bills around the skeleton of this remarkable cost system.

And yet this system fell absolutely flat when the store needed it most. It had been industriously squeezing figures out of the money spent and taken in by that company—squeezing them out in every ingenious way that the cost accountants could conjure up—but it was not getting the right sort of simple fundamental comparisons. It did not show the relation of the stocks on the shelves to the sales for the current periods in comparison with earlier periods.

The store put up a new building, designed to handle many additional lines, stocked heavily, and moved. The sales at the new location, particularly in the added lines with which the managers had but little experience, soon behaved disastrously. They held up beyond expectations, but the bills began to swamp them. For each incoming dollar, over one hundred and fifteen cents went out.

The store was on the way to going broke. The owners borrowed money—one million four hundred thousand dollars of it, to be exact—but it was like throwing good American money away. The cost system corps worked

faithfully and hard during this extremity—far into the night, piling up figures upon figures. But the figures still neglected the needed comparisons. Finally an assistant to one of the higher officials started out of his

ACTUAL

STATIONERY DEPARTMENT PAYROLL

1913-1914

		4-3	4-2	4-2	4-3	4-1	4-3	4-3	4	4-2	4-2	4-2	4-2	
	Rate	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	
Mr. Thomas	20.00	90.00	86.67	86.67	90.00	83.33	90.00	90.00	80.00	86.67				
Mr. Wilken	15.00	67.50	65.00	65.00	67.50	62.50	67.50	67.50	60.00	65.00				
Mr. Porter	12.00	54.00	52.00	36.00										
Mr. Murphy	8.00	36.00	34.67	39.33	45.00	41.67	45.00	45.00	40.00	43.33				
Mr. Devonie	5.00	4.17												
Mr. McCall	12.00													
Mr. Mayer	10.00													
Mr. Celes	10.00													
Mr. Barrows	8.00													
Mr. Brown	8.00													
Mr. Wood	10.00													
Miss Hughes	8.00													
Mrs. Cook	8.00													
Total by mos.														
Mr. Crehan														
Mr. McCord														
Total by mos.														

(ESTIMATE)

STATIONERY DEPARTMENT PAYROLL

1913-1914

		4-3	4-2	4-2	4-3	4-1	4-2	4-3	4	4-2	4-2	4-2	4-2	
	Rate	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Year
Mr. Thomas	20.00	90.00	86.67	86.66	90.00	83.33	90.00	90.00	80.00	86.66	86.67	86.66	86.67	1043.33
Mr. Wilken	15.00	67.50	65.00	65.00	67.50	62.50	67.50	67.50	60.00	65.00	65.00	65.00	65.00	782.50
Mr. Porter	12.00	54.00	52.00	52.00	54.00	50.00	54.00	54.00	48.00	52.00	52.00	52.00	52.00	626.00
Mr. Murphy	8.00	36.00	34.67	34.67	36.00	33.33	36.00	36.00	32.00	34.66	34.67	34.66	34.67	417.33
One Man	11.00			33.00	11.00									44.00
Four Men	11.00			77.00	11.00									88.00
Mr. Casey	15.00			30.00										30.00
Total by mos.		24750	23834	37833	26950	22916	24750	24750	22000	23832	23834	23832	23834	3031.15
Mr. Crehan		14166	14167	14166	14167	14166	14167	14167	14167	14167	14167	14167	14169	1700.00
Mr. McCord		25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	300.00
Total by mos.		16666	16667	16666	16667	16666	16667	16667	16667	16667	16667	16667	16667	2000.00

FORMS III and IV: These tables and those on page 147 belong to the cost system of a store that uses the budget system. The fundamental idea of such a system is the setting up of estimates for the year ahead

own initiative to locate the trouble. He did not know a great deal about accounting, but he did have a bit of a knack for analyzing.

He mulled over the cost system's great mass of figures, looking for loopholes. Matching these figures one

against another, he made the startling discovery that in the new departments, added on moving to the larger building, stocks were seventy-five per cent larger, for corresponding sales volumes, than in the sections handled

SUMMARY OF EXPENSE ITEMS

1912-1913

		Approp.	Expended	Over	Under	New Appr.
2-17	Salaries	35393.50	36803.81	1800.91	390.60	39841.38
18	Rent	5102.36	5043.77	59.25	122.44	5657.44
19	Light	802.52	745.94	6.25	62.83	807.00
20	Heat	195.40	174.54		20.86	185.00
20	Water	40.80	36.15		4.65	40.00
21-24	Insurance	1765.83	1820.06	54.23		1988.08
25	Stationery & Printing	1900.00	1905.21	5.21		1900.00
26	Postage	1300.00	1423.26	123.26		1100.00
27	Telephone	670.00				
26	Telegraph	50.00				
28-29	Freight & Cartage	2897.51				
30	Carfares	590.00				
30	Horse & Wagon Account	2168.30				
30	Legal Expenses	266.40				
31	Repairs of Fixtures & Bldg.	635.00				
32-35	Sundries	1090.00				
	U. S. Corp. Tax	175.00				
36-37	Advertising	2401.60				
	Auditing	800.00				
		57989.44				
	Total Appropriation	57989.42				
	Original Appropriation in Nov.	54813.77				
	Added from Supplementary Budget	3175.65				

SUNDRIES

1912-1913

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Year
M. F. Dep't		.99		2.31	10/55	8.30	3.69		.70				16.78
M. F. A. "							.60			.27			.87
Book Dep't	.33	cr.33	25.00	38.70	6.93	33.41	3.40		12.35	4.16	5.70	2.80	132.48
Stat. "	.10	.17	1.31	6.50	.89	10.49	2.71	.11	.10	1.25		2.29	34.98
Furn. "			11.00	.01		7.70	1.50		2.00	2.00			34.90
Toil. "			.37	10.00	4.60	3.00	.37	.42	.25		2.20		21.21
Shipping	3.00	2.23	4.91	3.62	3.00	11.01	35.68	1.10	10.81	.83	4.38	3.21	77.73
Branch			1.30	4.90	3.75	7.50	2.25	3.00	14.25	4.00	6.80	8.75	56.20
Accounting	7.55	.42	2.34	1.69	.88	8.20	.50	1.01	3.74			.85	27.30
General	7.25	25.00	26.59	23744	27.33	34.68	31.37	7.66	12.20	32.43	17.68	4.67	509.82
Cleaning Sundries	2.97	.99	15.45	1.00	8.69	.75	3.75	2.75	2.31	2.90		.41	41.97
Total by Mos.	21.20	29.49	88.47	32666	60.54	13404	86.02	16.27	58.73	47.82	36.63	27.78	953.61

		Approp.	Expended	Over	Under	New Appr.
Sundries	$800.00					
Cleaning Sundries	98.00					
Add. in January	100.00					
" " April	100.00					
Total Appropriation for Sundries		1090.00	953.61		136.39	800.00

FORMS V and VI: As explained on page 146 and further illustrated by these tables, the appropriations in a budget system afford the managers a constant check on expenses and give the departments tangible, reasonable records against which to compare efforts

by buyers trained under the store's excellent merchandising system. The new buyers were at once called together, instructed to reduce their stocks, and the store put on an exceedingly profitable basis within a very short time.

DAILY SALES AND GROSS PROFIT STATEMENT BY CLERKS MONTH

DAY	NAME OF CLERK								NAME OF CLERK					
	NO. OF SALES	LAST TICKET USED	CASH SALES	CREDIT SALES	TOTAL SALES	COST OF GOODS SOLD	GROSS PROFIT	% G. P ON SALES	NO. OF SALES	LAST TICKET USED	CASH SALES	CREDIT SALES	TOTAL SALES	COST OF GOODS SOLD
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
11														
12														
13														
20														
21														
22														
23														
24														
25														
26														
27														
28														
29														
30														
31														
TOTALS														
SAME MONTH LAST YEAR														
GAIN OR LOSS														
THIS YEAR TO DATE														
LAST YEAR TO DATE														

Month

	Date	1 Mdse. on Hand	2 New Goods Added to Stock	3 Goods Returned by Customer; Deduct from Sales	4 Cost of Goods Returned; Deduct from Cost of Goods Sold	5 Goods Returned to Manufacturers
A Monday						
B Tuesday						
C Wednesday						
D Thursday						
E Friday						
F Saturday						
Total for week						
G Monday						
H Tuesday						
I Wednesday						
J Thursday						
R Saturday						
Total for week						
S Monday						
T Tuesday						
U Wednesday						
V Thursday						
W Friday						
X Saturday						
Total for week						
Y Monday						
Z Tuesday						
AA Wednesday						
BB Thursday						
CC Friday						
DD Saturday						
Total for week						
EE Monday						
FF Total for month						
GG Total for year to date						
HH Tot. last y'r to this date						

XX Memorandum of Shrinkage (or Excess) of Inventory	This Year	Last Year
Actual Inventory		
Mdse. on Hand — According to this sheet		
Shrinkage (or Excess)		

JJ Amount Owing Last Day of the Month	Today	Same Date Last Year
Accounts Payable		
Notes Payable		
Total		

FORMS VII and VIII: These two forms (spread across both pages) are from accounting systems of progressive manufacturers—the upper from R. H. Ingersoll and Brother's jewelry system, the lower from Hart, Schaffner

OF ________________ 191 ____

NAME OF CLERK ____

GROSS SALES	% G. P. ON SALES	NO. OF SALES	LAST TICKET USED	CASH SALES	CREDIT SALES	TOTAL SALES	COST OF GOODS SOLD	GROSS PROFIT	% G. P. ON SALES

191 ____

6 Goods Sold, Less Goods Returned	7 Cost of Goods Sold, Less Cost of Goods Returned	8 Gross Profit	9 % on Sales	10 Weather	11 Event

Advance Orders for Season KK

	This Season	Corr. Season Last Year
Bought, Entire Season		
Delivered to Date		
Balance Undelivered		

Summary LL	Month MM		Year to Date NN		Last Year to Date OO	
	Amount	% on Sales	Amount	% on Sales	Amount	% on Sales
Gross Profits on Sales						
Deduct Expenses						
Rent						
Advertising						
General						
Salaries, Including Owners						
Freight and Express						
Total Expenses						
Net Profit on Sales						
Add Discount Received						
Total Net Profits						

& Marx's men's furnishings system. Depreciation facts, liabilities, advance orders, and operating costs are assembled with a record of daily activities; and the salesmen's results compared to secure fair standards

Not the least peculiar side of this incident is that when the cost system experts were shown the assistant's comparisons, they depreciated the value of some of them which discarded or lumped into totals small amounts properly belonging elsewhere. Still these sums were tens merged into hundreds of thousands—they could not in any way, shape or manner affect the broad truth brought out by the comparisons in time to save the store. The trouble with the cost accountants was that accuracy had become their bugbear.

This incident points to something in addition to the value of comparisons—the part imagination plays in cost accounting. This is our fourth factor. The accountants were faithful and earnest and capable—but they lacked imagination, lacked the scope to look beyond the details and locate the big guiding facts which their system should pick out even at the cost of dropping off the cents, or, when the sums grew larger, even anything below forty-nine dollars.

It would not be by any means sound to suggest that accuracy is not a factor in cost accounting. It is—call it the fifth and place it on a par with the four we have already discussed. But detail accuracy, at the cost of neglecting big business-saving facts, is tommy rot.

ACCOUNTING *is a means to an end—knowledge of the standing and needs of the business. Something is wrong when the means becomes the end.*

As the sixth determining factor in cost systems, we shall not go far wrong in selecting the setting up of standards. One of the most important objects a first rate cost system accomplishes is finding goals towards which the various departments can strive. It is always half the game to be fighting for a definite end, and this

is true of business, as well as of the rest of life. But the goals—or standards—must be just, and neither too far away nor too easy of attainment, for if they are not just, there will not be sufficient urge to strive for them. It is an important share of the cost system's work to assure accurate and frequent standards.

A seventh factor and our analysis of cost system requirements is completed. This seventh factor is that of cooperation. The worthwhile cost system furnishes figures which, if properly arranged, can be used to pull the entire organization into the each-for-all, cooperate-with-one-another kind of a body it should be. Probably the delivery man is given only the record of bundles handled; the collector, the fall in accounts outstanding; the cashier, a tabulation of cash errors; and the salesmen, a record of their sales. But this is sufficient to awaken a livelier interest in the company, to bring "the firm" and "the boys" nearer better relations. And, of course, the information given the buyers and higher executives by the cost system can stir up cooperation that may prove little short of invaluable.

So much for the seven factors that count for most in a cost system: thoroughness; simplicity; comparability; imagination; sane accuracy; standards; and cooperation. There are three other influences that practically amount to determining factors: arrangement; frequency; and sense of direction. The necessity of a helpful arrangement prescribes that figures be presented to the executive with the more important facts massed at the top of the pages and the details collected below. The frequency with which the figures are tabulated for comparison is important, but must be varied to fit the individual requirements of either the business or the line. Sense of direction is more intangible but not less vital—it is

the result of the owner's instinct for practical business and prevents the cost routine from going moss gathering in search of useless facts or tangling itself in unnecessary red-tape until it strangles to death.

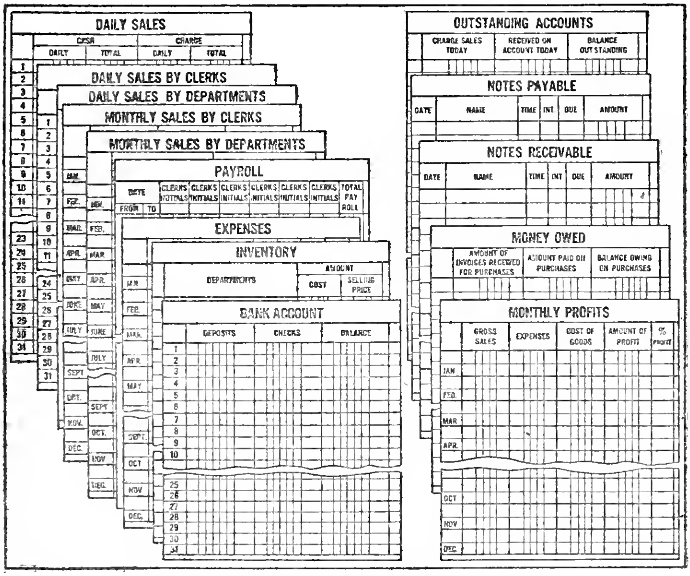
If all these characteristics belong in a cost system, how are they to be secured? Assistance is now available from many sources. In practically every line some pioneer has worked out a system intended to care for its particular needs. A number of the large manufacturers have spent liberally to secure cost-keeping methods fitted to the requirements of their retailers—R. H. Ingersoll and Brother, and Hart, Schaffner and Marx, for example—and not a few of the universities are taking up the same work, notably Harvard, through the Bureau of Business Research of the Harvard Graduate School of Business Administration.

The most important precaution is a patient search among these sources to secure a method directly planned for your business. This article, for instance, might have given a complete cost system, but it would then have been helpful to only a few lines—and possibly harmful, or at least bothersome, to merchants attempting to use it in other lines. Policies and detail sources, on the other hand, are constructive for all.

INSTALLING *a cost system is a difficult task, upon which much depends. These five steps show how both business men and experts plan out successful cost systems.*

In installing a cost system for practically any line, however, the first steps are to list the expense items and group them under broad classifications. These classifications will vary, but usually include: (1) additions to the capital expenditures—outlays that increase the value of the plant; (2) payments connected with

merchandise; (3) costs that can be charged directly to the departments; (4) items specifically affecting the stocks or the customers, but which cannot be allocated to particular departments; and, (5) other indirect items which go to make up the administrative expense.



FORMS IX-XXII: Every well-planned cost system endeavors to emphasize comparisons. These forms, which illustrate this fact, come from a system offered to retail merchants by the Burroughs Adding Machine Company. In practically every instance there is a daily or a monthly comparison

After the classifications are set up, the rather vague administrative items are least troublesome when rigidly held in check by apportioning costs, whenever possible, directly to departments according to benefits received. The apportionments are, of course, worthless unless made with scrupulous care.

Insurance, for example, should be prorated according to stock values; stockroom charges according to supply quotas; delivery expenses according to the number of parcels delivered; window dressing according to the window space used; rental, heating, lighting, ventilation, power, general repair, janitor service, general fire sprinkling and floor walking charges according to the floor space used for selling, after allowing for location in the store; and so on through all the items.

Some charges will remain after these apportionments are decided upon—such as general advertising items, shipping costs, accounting expenses and bills for legal services. These can safely be either divided equally among departments, or split up according to sales, but only after they have been stripped by an acid test of every charge open to direct apportionment.

These steps taken, the average cost system attempts to show: (1) net sales; (2) gross profit; (3) purchase costs to the point of delivery; (4) net profit; (5) the operating expense; and, (6) statistics. The nature of the statistics will vary according to the type of business involved. But in many instances they include department sales; net profit and loss; sales by salesmen; sales by territories; sales by advertising mediums; and the turnovers secured by departments, lines or bulk stocks.

To secure these facts the cost system will probably use a trial balance; inventories, handling purchases, sales and the cost of sales; expense accounts; a cost book; an invoice register subject to correction from the inventories; a mark-down book; a detailed list of all expense classifications; accounts for departmental expenses; a voucher register; sales slips; outlay, cash drawer and cash on account slips; order records; want slips for catching calls for items out of stock; summaries for outgo

and income by varying periods; checks that detail the purpose of the payments; and "budget" blanks that enable the merchant to estimate his stocks and expenses six months or more ahead in the light of past records.

These are the tools, then. You may not need all of them, only a selection, or additional ones especially fitted to your work. This task of assembling your particular kit of cost-keeping tools properly rests with the assistance you secure either from the sources enumerated a few paragraphs above, or from your own adaptability guided by a study of the subject, and a careful analysis of your business.

But from whatever source your cost system finally comes, it is worth remembering that simply listing experiences neither shows how to control them, nor establishes where you stand. And one tool at work is worth a thousand idle ones.

X

STANDING UP FOR YOUR PROFIT

PROFITS large enough to cover the time, the rent, and the other charges I have spent keeping those goods make them too expensive for my trade." The owner of a small New Hampshire store was explaining the shelf-worn appearance of some stock to an alert man whose chauffeur wanted gasoline. The two men, both nearly sixty, had started in business with stores of about the same size. After forty years, one worries over stickers in a town of three thousand; the other controls a string of big New York department stores and takes long vacations during the summer.

"Here's my card," the tourist laughed as his driver signaled. "Maybe you'll recognize my name. I also keep shop—that's why I asked so many questions. I sympathize with you. Perhaps you'll take a bit of advice from me. Get rid of that old stock at any cost. I fire out everything that stops moving. Hereafter, take losses as soon as stock drags.

"Today success depends on rapid trading. Remember that you must make six sales in order to carry stock and secure a single profit. Shelf profits are not worth a red cent when it comes to counting net gains.

"I started with a store the size of this. The biggest lesson I ever learned is to consider January the im-

portant month and see that it doesn't show an inventory soggy with shelf profits. If these ideas help, you're welcome to them, for that remarkable explanation of why some of your stock is musty will hereafter serve as a horrible example to my department managers."

Here were two ideas of profit—one of a storekeeper who really does not know what the word means; the other of a merchant who stands up for a sound profit. The New England retailer who adds running expenses to the cost of stickers, until they approximate the value of their weight in radium, partly typifies many distributors. All in this class hesitate about marking down stock until too late; a few agree absolutely with him and maintain that consumers owe them a profit on whatever they place on their shelves. The New Yorker's success came because he knew that a distributor is only entitled to a profit in return for the risk he shoulders and the talent he puts into his business. He undertakes, by using his abilities, to relieve consumers of the risk of not finding what they want when they want it.

If you have money in the bank, it does not require unusual ability to fill a building with goods, or a factory with raw material, irrespective of demand. That is all the man who simply carries dead stock does; consumers are generous when they pay him a fair wage plus bank interest on his money. He may, it is true, control an exceptional location or face weak competition, and, on account of these circumstances, secure a profit even without demonstrating that he has ability. But profit is the public's pay for risk, and sooner or later a skilful rival will appear. Then what the inefficient man had thought were his profits shift to the man who actually shows capacity for his business.

What is a sound profit, if it results, as economists

tell us, only from talents? In business profit comes as a return over and above fair pay for the routine work involved in keeping a shop, office or factory open. It is not rent for a building owned by the business. It is not interest on the investment. It is not money sufficient to pay all the running expenses and the usual markdown losses. This is what a profit is: the amount consumers gladly pay the business man doing a more or less risky job unusually well.

The manufacturer who secures a profit in a competitive market controls an organization so well that his costs leave him a margin after meeting competitors' selling prices. The head of a successful insurance agency makes money because he handles his staff with more than average ability. A retailer finds a surplus in his bank account when he *merchandises* stocks instead of going ahead blindly.

WHAT *is profit? Many merchants have answered this question in a way that spelled ruin. Here is an explanation of exactly what true profit is.*

The man who shows no capacity either goes under or merely gets a wage—there is no profit if the customers buy at a price which only takes care of costs to do business and fills at market rates a pay envelope for the distributor.

The successful business man justly demands, and gets, something more as compensation for the satisfactory way he handles his risk. He is entitled to a percentage over and above all the items of his running expenses, plus salary, plus bank interest.

Profit is not interest on investment; it is not a salary paid for managing the business. Both these are items which the proprietor should properly pay himself as

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1028 Central Street

Telephones: Evanston 4567
Wilmette 220

WE HAVE spent liberally of time and effort, also of money, to bring home the fact that cooperation between consumer and distributor, based upon an intelligent understanding of each other's wants, would prove mutually profitable. We have also endeavored to show that the true merchant is not only a business-doer, but also a business-builder, one whose chief effort is to give the people he serves the best possible goods and service at the least possible cost, trusting to them in turn to be fair-minded and give him such patronage as will afford him a just compensation for service rendered. Said one woman: "Mr. Randlev, you give me good service and I am willing to give you a just pay for it, but what assurance have I that you do not exact more?" What constitutes a just compensation anyway? Let us figure it out:

6% interest on $10,000.00 invested capital	.80%
Salary to manager	2.00
Salary to store and office help	6.32
Salary to delivery help	2.80
Upkeep of horses, wagons, etc.	1.95
Rent	1.36
Depreciation of fixtures	.14
Losses, bad debts	.50
Telephone	.18
Ice	.24
Heat	.06
Light	.18
Insurance	.07
Taxes and license	.14
Advertising	.36
Benevolence	.15
Paper, bags, stationery, stamps, etc.	1.12
Miscellaneous	.13
	18½%
This constitutes the so-called overhead or fixed charges.	
Add to that a net profit of	4 %
And we have a gross profit of	22½%

An intelligent study of these figures will help to determine the merit or demerit of many statements and assertions now running amuck in the public prints, and proves:

1st. Our gross profit on your monthly bill of $25.00 is $5.62. Our net profit on your monthly bill of $25.00 is $1.00.

FIGURE XIV: This is a handbill circulated by a grocery firm. They find that their explanation of the narrow margin between rising costs and over-the-counter quotations holds customers when competitors slash prices

investor in and manager of his own business. Whether he receives a profit above this depends, in the long run, on his ability as a business man to earn that profit from the people he serves. For profit is the owner's return for risk taken in providing for the wants of his customers and community. The essential phases of this vital side of merchandising are, first, how gross and net profits average in different lines and trades; second, how to mark-up on costs to secure a sound net profit; and, third, how successful men recognize the meaning of profit and justly stand up for it.

How is the business man to fix the amount of this profit and his other charges? His ability, the nature of his goods or service, the strength of the consumers' demand, and the intensity of competition are the determining factors. Let us consider each in turn—ability comes first. Business men, like all human beings, vary in ability. Otherwise there would be a standard salary for business men. But some make millions, others thousands. All degrees of business talents exist above the low limit set by those who get no more than bank interest and a wage out of their enterprises. So ability determines how much a man will make under the conditions set by the three other profit factors. Just as faces differ, so ability seldom duplicates.

Whether of small or great abilities, however, every man in business encounters the three remaining profit factors, among which the nature of the goods or service is next in order. Stocks are only worth what they will bring—costs to do business may be disregarded except as a check to prevent losses. Take fifty cents' worth of straw, a dollar and a half invested in labor, a two dollar ribbon—add desired style—and a woman may cheerfully pay twenty-five dollars for the finished hat.

A man's straw hat often contains raw material costing about a dollar and sells for five dollars. Therefore, the distributor is able to measure his gains against the nature of his goods, provided he has avoided unprofitable lines by keeping his cost of doing business in mind when buying.

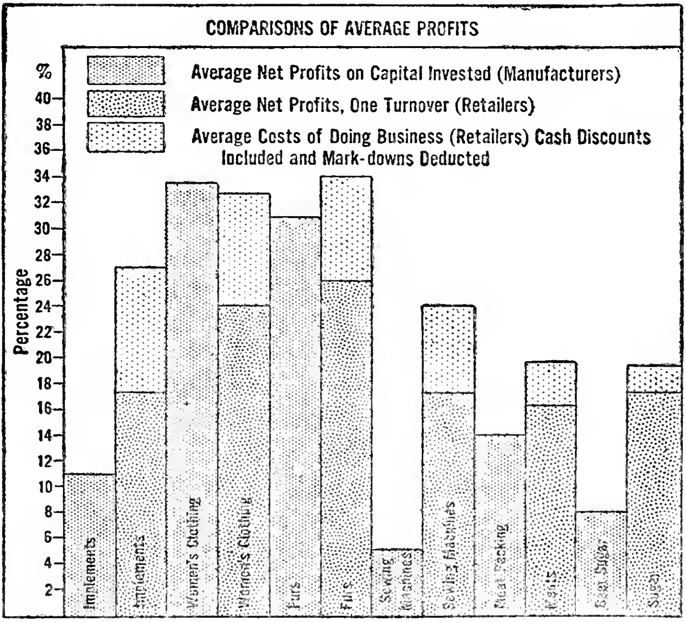

FIGURE XV: The averages here compared demonstrate that distributors must stand up for fair profits in order to secure gains equal to those with which the consumer rewards the manufacturer

Suppose that Carl J. Ricker takes a trip to Chicago from his jewelry store in Emporia, Kansas, and finds "blue bird of happiness" pins popular there. He carries a stock of them back to Emporia; offers a section of Kansas something attractive it might never have been

able to secure if he had not shown get up and go enough to visit Chicago in order to widen the scope of his buying ability. If his cost of doing business happens to be eighteen per cent, including a fair manager's salary for himself, and ten per cent his idea of a net profit, is his correct mark-up on the "blue bird of happiness" pins twenty-eight per cent? Not for a moment. He has a novelty, a bit of jewelry consumers desire. They will gladly pay him a high profit in return for his progressiveness and ability in locating it. He may justly take a hundred per cent mark-up, or even more.

"That reads very nicely," you may question, "but how about actual practice?" As a matter of fact the incident is true of actual practice. Ricker came to Chicago, found the pins, and took them to Emporia. Though his cost of doing business may not be eighteen per cent, his net profit ten, or his mark-up on these pins one hundred, since he is a wise merchant, he doubtless secured a higher gross profit than usual.

ONE *item is a staple, another a novelty. How shall I mark them up? Here is an answer of interest to manufacturers, jobbers, wholesalers and retailers.*

Today distributors who secure attractive profits disregard blanket mark-ups, and take a gross profit on each line according to what it will bring. They find accurately the costs to sell a line, and stand up for a reasonable profit, adding a greater return whenever possible. They are justified, for business men always go a long ways for long profits. Styles or novelties, the carriers of high profit possibilities, usually involve extraordinary risks and abnormal selling expenses.

Round figure mark-ups are relics of the days when jobbers educated retailers to "buy at eighty cents, sell

at one-twenty-five; buy at one-twenty, sell at one-fifty; buy at one-sixty, sell at two.'' Today progressive retailers know that the nature of the goods, not the out-of-date advice of jobbers seeking to assure them a protecting margin through rule-of-thumb methods, fixes gross profits. Where would the retail grocer be if he marked up staples and fancy lines with the same margin? Or the distributor at wholesale who tried to get as much on sugar as on roasted coffee, teas, spices and dried fruits?

A Michigan retailer died recently after working thirty-eight years behind counters. He left $250. They found he had used a general mark-up—lines that cost $2.00 a dozen he sold for twenty-two cents each; five-dollar purchases brought him fifty-five cents a piece; and eleven-dollar lots, one dollar and twenty cents an article. The shoe business of the country is in a bad way, at least as far as retailers are concerned, because the distributors fail to secure a suitable return for the style changes which now disturb their stocks. Many use fixed prices, pity the customer when he does not pity himself, and hesitate to stand up for style prices on style stocks. However, the National Boot and Shoe Manufacturers' Association and the National Shoe Retailers' Association now advise the discontinuance of fixed mark-ups.

Too large a profit is, however, dangerous. The great concerns of tomorrow will undoubtedly build on small profits, rapid stock turns, and large volumes which proportionately lessen expenses. R. H. Macey and Company grew for several reasons, but one of the most important is their reputation for taking only a twenty per cent mark-up. Nevertheless, round-figure marks-ups usually bring ruin in this day of closely figured costs.

TYPICAL PROFITS *and*

These figures supply only net gains on sales, but the profits on the investments may easily be figured from the data given. The simple method of arriving at the net profit here used covers roughly all losses from mark-downs and unknown sources. The approximate number of [illegible] turns secured

FOR A GROCERY STORE

A grocery in the South submitted these figures – they are reasonably typical of a prosperous grocery business. The small stock investment is the most marked characteristic of the line. Of course the average grocer is not even approximating these earnings.

Advertising and donations	$ 1,275.50
Bad debts	492.66
Delivery	3,410.85
Depreciation and shrinkage	961.10
General expenses	942.75
Heat and light	475.20
Insurance and taxes	844.56
Interest on investment at 6%	630.00
Rent	2,865.00
Salaries (including owner's)	7,842.94
Supplies	385.61
Stock, first of year, at cost	$ 7,341.60
Purchases for year, at cost	73,021.45
	$80,363.05
End of year stock, at cost	6,998.11
Sales, at cost	$73,364.94
Actual income from sales	96,243.75
Gross profit	$22,878.81
Expenses, as detailed above	20,126.17
Net profit	$ 2,752.64

FOR A DRUG STORE

This is an actual store – in New England. The owner thought he was making a pretty nice thing out of it until a representative of a commercial agency asked him to take out the interest on his investment, and a salary for himself, before reporting his net profit.

Advertising and donations	$ 1,204.81
Bad debts	106.15
Delivery	299.06
Depreciation and shrinkage	210.62
General expenses	587.44
Heat and light	462.25
Insurance and taxes	492.14
Interest on investment at 6%	900.00
Rent	2,400.00
Salaries (including owner's)	4,952.70
Supplies	241.11
Stock, first of year, at cost	$ 8,120.16
Purchases for year, at cost	29,711.02
	$37,831.18
End of year stock, at cost	7,902.10
Sales, at cost	$29,929.08
Actual income from sales	42,106.52
Gross profit	$12,177.44
Expenses, as detailed above	11,856.28
Net profit	$ 321.1

FOR A JEWELRY STORE

It is interesting to compare these figures from the books of a middle-western jeweler with those epitomizing conditions in the shoe store – table opposite, to the right – securing approximately the same sales volume.

Advertising and donations	$ 2,400.91
Bad debts	171.54
Delivery	289.25
Depreciation and shrinkage	821.22
General expenses	405.25
Heat and light	592.61
Insurance and taxes	1,185.16
Interest on investment at 6%	2,962.85
Rent	3,500.00
Salaries (including owner's)	9,872.91
Supplies	738.50
Stock, first of year, at cost	38,210.90
Purchases for year, at cost	54,782.45
	$92,993.35
End of year stock, at cost	37,466.21
Sales, at cost	$55,527.14
Actual income from sales	80,942.56
Gross profit	$25,415.42
Expenses, as detailed above	22,940.20
Net profit	$ 2,475.22

COSTS *by* TRADES

becomes apparent when the averages of the two inventories are divided into the sales at cost. In figuring rates of turnover from figures representative of manufacturing concerns, the average of the amount of capital invested during a period is usually divided into the net sales for that period

FOR A DEPARTMENT STORE

These figures are slightly disguised. They clearly illustrate the characteristics of department store merchandising.

Advertising and donations	$ 113,209.25
Bad debts	5,691.95
Delivery	81,211.01
Depreciation and shrinkage	20,319.12
General expenses	60,904.88
Heat and light	31,843.60
Insurance and taxes	23,191.40
Interest on investm't (6%)	37,210.84
Rent	121,670.80
Salaries (including owner's)	241,625.61
Supplies	27,204.51
Stock, first of year, at cost	309,750.12
Purchases for year, at cost	2,167,101.40
	$2,476,851.52
End of year stock, at cost	310,461.83
Sales, at cost	$2,166,389.69
Actual income from sales	2,881,246.17
Gross profit	$ 714,856.48
Expense, as detailed above	764,082.97
Apparent loss	$ 49,226.49
Discounts	231,216.45
Net profit	$ 181,989.96

FOR A HARDWARE STORE

This is an ideal store made up from figures presented before many conventions, the opinions of several credit managers, and facts submitted by scores of individual stores. The figures are intended to be obtainable averages.

Advertising and donations	$ 210.80
Bad debts	208.60
Delivery	156.50
Depreciation and shrinkage	180.00
General expenses	110.00
Heat and light	100.50
Insurance and taxes	180.50
Interest on investment at 6%	720.00
Rent	720.00
Salaries (including owner's)	2,748.00
Supplies	56.10
Stock, first of year, at cost	7,810.60
Purchases for year, at cost	26,410.20
	$34,220.80
End of year stock, at cost	8,010.10
Sales, at cost	$26,210.70
Actual income from sales	34,073.91
Gross profit	$ 7,863.21
Expenses, as detailed above	5,391.00
Net profit	$ 2,472.21

FOR A SHOE STORE

That expenses in this New York state shoe store are about normal is established by investigations made by the Harvard Graduate School of Business Administration, trade organizations and System.

Advertising and donations	$ 2,008.41
Bad debts	98.60
Delivery	264.82
Depreciation and shrinkage	401.14
General expenses	1,645.75
Heat and light	402.88
Insurance and taxes	892.15
Interest on investment at 6%	1,740.00
Rent	2,400.00
Salaries (including owner's)	8,106.50
Supplies	371.25
Stock, first of year, at cost	24,680.42
Purchases for year, at cost	51,414.55
	$76,094.97
End of year stock, at cost	22,365.86
Sales, at cost	$53,729.11
Actual income from sales	72,498.24
Gross profit	$18,769.13
Expenses, as detailed above	18,331.50
Net profit	$ 437.63

Consumers do not demand round-figure prices; they willingly pay a profit on the service they desire when shown that it costs the distributor money. The customer gauges prices by the satisfaction he secures, not by the distributor's profits. All the consumer asks is plainly marked prices. These he has had for several centuries—the *Spectator* for November 26, 1712, says of John Morton, a merchant, "He imposes upon himself a rule of affixing the value of each piece he sells, to the piece itself; so that the most ignorant servant or child will be as good a buyer at his shop, as the most skilful in the trade." Every merchant is a John Morton today as a matter of course; but not all know costs plus markdowns by lines, and not all mark-up more than that percentage according to the nature of each line. Still John Wanamaker would face ruin in a day if he did not.

TAKE *a few hours off some day and list the problems your business faces under these factors that shape profits. It is by such analysis that stores grow.*

The strength of the consumers' demand follows the nature of the goods in our list of profit determining factors. It is not possible to consider any one of these factors without regard to the effect of the others upon it. Demand may not be profitable if competitors supply it easily. As surely as nothing sells without demand, the highest profits occur when a distributor secures the means of satisfying, almost exclusively, a portion of a general demand. Therefore, style changes and novelties often bring attractive returns if they touch a strong demand. These facts explain the attention successful distributors give to locating fast selling lines and surrounding them with attractive equipment or service.

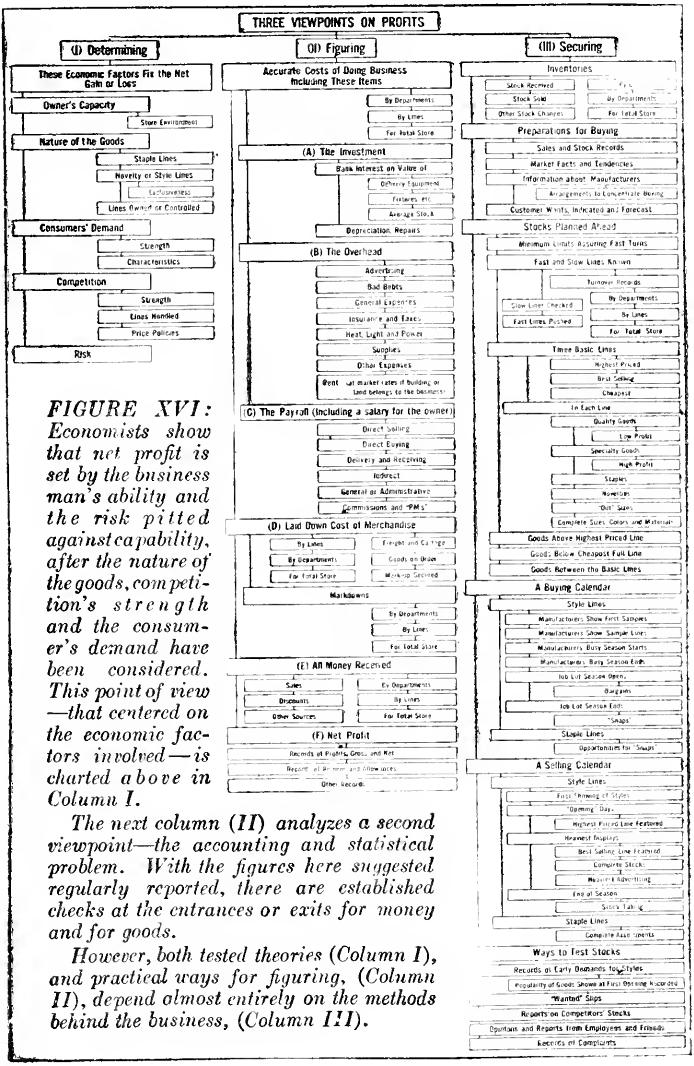

FIGURE XVI: Economists show that net profit is set by the business man's ability and the risk pitted against capability, after the nature of the goods, competition's strength and the consumer's demand have been considered. This point of view—that centered on the economic factors involved—is charted above in Column I.

The next column (II) analyzes a second viewpoint—the accounting and statistical problem. With the figures here suggested regularly reported, there are established checks at the entrances or exits for money and for goods.

However, both tested theories (Column I), and practical ways for figuring, (Column II), depend almost entirely on the methods behind the business, (Column III).

The fourth, and last, profit factor is this intensity of competition. Since very few distributors market monopolies, they find their profits in part determined by the strength of the competition in their territories. They consequently face the difficulty of deciding between a few long profits and many narrow margins. The entire make-up of their enterprises may be affected by the course they select. Moreover, since a decision to proportionately lessen expenses by expanding the sales volume often falls short of its object, many make this factor their Waterloo.

Exactly as important as business capability, stock characteristics, demand and competition—these four profit factors—are sound accounting and mathematical methods for figuring mark-ups. Because custom has attempted to fit elaborate bookkeeping practices to the exceedingly simple plus and minus accounting problems involved in ninety per cent of our stores, many distributors go ahead blindly.

Two types of facts—inventory figures and accurate costs of doing business—are necessary. They can, so we have seen, be kept on sets of cards without reference to the traditional ledgers, journals, cash books or trial balances. The relation of costs to profits are summarized in the chart on page 167.

The earnest distributor keeps at least figures which enable him, (1) to add purchases to an inventory taken at the beginning of a period, (2) subtract the stock on hand at the end of this period, (3) and subtract the remainder, (4) in addition to every cent he has paid out during the period, (5) including a fair wage for himself plus interest on the money invested in his business, from his sales. This remainder is net profit.

Once he finds how easy it is to get in this way some

idea of his net profits, the value of going deeper into his business becomes evident. He then discovers that after all it is not so much of a task to follow the net and gross profits on each line; to pick the slow and fast movers; to apportion the overhead correctly, even by lines; to demonstrate how many lines he can safely carry; to establish the quickest way to move stickers; to show what form of advertising brings him the most money, and to fix his losses from bad debts. In short, he pulls himself, without any trouble whatsoever, away from the greatest danger indicated by failure statistics —incompetence.

Once he has adequate facts and cost figures at hand, still another difficulty confronts the distributor—the actual calculation of selling prices. For several years those anxious to help the retailer have earnestly admonished: "Don't fool yourself by marking up on the cost price."

HOW *to figure mark-ups is an old problem which has been discussed pro and con more than the simplicity of the solution warrants. Here is the solution.*

Although many merchants forget that a percentage of the cost price is smaller than the same percentage of the selling price, it is absolutely incorrect arbitrarily to state that mark-ups from cost figures mislead. It is quite sound to calculate from cost prices if all the percentages used relate to cost figures. As a matter of fact, many progressive concerns maintain both cost and selling price mark-up records. But most merchants, quite naturally, think of expenses as so much of their sales. If expenses expressed as percentages of sales are figured on costs—smaller amounts than the sales, of course—mistakes result. To avoid this blunder, it is

PROFIT *in* EIGHTY LINES *and* TRADES

Each of the percentages assembled below gives either net or gross profits for an actual line, store, or manufacturing plant. For instance, the grocery store mentioned in the column is near Kimbark Avenue and Fifty-third Street, Chicago. All the distributive channels are included. By combining the figures it is, in several instances, possible to obtain a rough estimate of the cost of getting certain lines from the factories to the consumers' doors

TYPICAL GROSS PROFITS (ON SALES)

	Per cent	
American Family Soap (at full price)	16.36	
Barington Hall Coffee (at full price)	20	
Borden's Eagle Milk (at full price)	13.33	
Campbell's Soup (at full price)	25	
Chain grocery stores (three) (49½% reported by the Association for Improving Conditions of the Poor)	15 to 49.5	
Clothing stock (southern store; range is from 3 to 37%)	20	(average)
Collar stock (men's), New York City (cost to do business, 29%)	26	
Cotton dress goods stock	32 to 41	
Cream of Wheat (at full price)	16.66	
Dr. Price's Baking Powder (at full price)	23.33	
Fels' Naphtha Soap (at full price)	20	
Furniture store (cost of doing business, 31%)	49	
Grocery store (cost of doing business, 20%) (Sales, $101,877.00)	25	(average)
Hat stock (men's)	39	(average)
Hardware (large store)	33.33	(average)
Hardware line (jobber made 17%)	31	
Hardware store (town of 2,000) (cost to do business, 25%)	37.5	(average)
Instalment hardware line	62	
Ivory Soap (at full price)	20	
Kellogg's Toasted Corn Flakes (at full price)	22.33	
Large department store (average for seven years)	24.5	
Malt Breakfast Food (at full price)	16.66	
Mail order house (largest in the world)	25	(average)
Meat line (No. 2 loin)	33.33	
Meat line (ribs)	40	
Meat line (500 lb. steer—cost 13½c. per lb.; sold for 14½ to 16c. per lb.)	12	
Neckwear stock (New York City—used as a "loss leader")	26	
Pet Milk (at full price)	13.33	
Pillsbury's Best Breakfast Food (at full price)	16.66	
Quaker Oats (at full price)	21.7	
Ralston Breakfast Food (at full price)	16.66	
Ready-made clothing lines (Tariff Board)	33.33	
Restaurant menu (highest profits taken on salads and pastries; lowest on meats)	0 to 300	
Royal Baking Powder (at full price)	20.84	
Rumford Baking Powder (at full price)	23.31	
Shredded Wheat Biscuits (at full price)	20	
Shoe store ($5—$6 lines—at retail)	25 to 33.33	
Shoe store ($6—$15 lines—at retail)	45	(average)
Shoe store ($4.50 shoes cost $2.40 and $2.65; $5.00 shoes cost $2.85 and $3.25)	40	(average)
Syrup line (at full price)	18	
Uneeda Biscuits (at full price)	16.66	
Variety goods bargain basement	15 to 25	
Variety goods store (average cost 5c. articles, 40c. a doz.; average cost 10c. articles, 80c. a doz.; average cost 25c. articles, $2.00 a doz.)	25 to 33.33	
Wesson Salad Oil (at full price)	20	

TYPICAL NET PROFITS (ON SALES)

RETAIL	Per cent
Cash grocery	3 to 5
Clothing stock (southern store)	4
Commissary and general store	8 to 10
Dry goods store (small town)	10 to 12
Dry goods store (large city)	5 to 7
Furniture stock	18
Grocery	4 to 5
Hardware store (town of 5,000)	12.5
Large department store (average for seven years)	3.1
Mail order houses (average three years; two of the largest concerns; cost of doing business of the largest, 15%)	6.8
Variety goods store	10 to 12
Variety goods bargain basement	5 to 10

WHOLESALE	
Wholesale cotton dress goods concern	3
Wholesale grocery concern (cost of doing business, 8%)	2
Wholesale shoe concern	4.5

MANUFACTURING	
Cotton manufacturers (50 South Carolina mills, on the capital)	10
Cotton manufacturers (thirty-year average, 100 English companies, on the capital)	5.33
Packing concern (also sells at wholesale)	2.5
Shoe manufacturer	5

TYPICAL LARGE DEPARTMENT STORE GROSS PROFITS

	Per cent
Art goods or needlework	28
Blankets, comforters, pillows, sheets, etc	27
Cameras	26
China or glass ware	32
Clocks and watches	28
Colored dress goods	28
Harness	31
Infants' clothing	30
Leather goods	32
Linings	32
Neckwear (women's)	29
Notions	31
Trimmings	28
Upholstery	33
Wrappers	26

only necessary to keep clearly in mind what your percentages actually tie up with—sales or costs. This table shows the difference between percentages on sales and costs—marking up an article 50% of its cost price is exactly the same as adding 33⅓% of its selling price:

Selling Price Percentages	Expressed as Fractions	Corresponding Cost Price Percentages
50	1/2	1/1 100
33 1/3	1/3	1/2 50
28 4/7	2/7	2/5 40
25	1/4	1/3 .... 33 1/3
20	1/5	1/4 25
12½	1/8	1/7 .... 14 2/7
10	1/10	1/9 .... 11 1/9

Here is an example to illustrate these facts. Suppose a merchant who finds it costs him 25% of his sales to do business and wants a net profit equal to 10% of his sales,

desires to secure a sound profit on an article which cost him $10.00. He knows that the selling price represents all, or 100%, of his income, and since the costs and the profit amount to 35% of this, the cost—in this case $10.00—can be nothing more or less than 65%. If $10.00 are 65% of the selling price of this particular article, then 1% is 1/65 of $10.00 or $0.1538. If $0.1538 are one hundredth, the entire selling price will then become 100×$0.1538, or $15.38.

But now consider that this merchant records his expenses and net profits as percentages of the cost of his stocks. He would find them to be 53⅞%. To get his selling price on the same $10.00 item he would simply add 53⅞% to it and get, as before, a selling price of $15.38. But if—this is the nigger in the woodpile they talk so much about—but if he became confused, took the 35% selling price mark-up as a cost percentage, and added only $3.50, he would get a very unsound, ruinous selling price—$13.50. This is the type of mistake responsible for the agitation about marking up on the selling price—quite evidently, one that is easily avoided.

BIG, *easy-going profits were possible fifteen or twenty years ago. But today it is necessary to build up equivalent gains with a number of small profits.*

This confusion of profit figuring methods, combined with the variable nature of the factors that shape net returns, makes the setting up of hard and fast standards impossible. Recently the Philadelphia grocers cut prices to a certain trade class eight per cent; St. Louis retailers at once declared that somebody had made a disastrous mistake, since five per cent, in their opinion, measures the average net gain on groceries.

Some believe that a $2.25 shoe retailed for $3.50 gives

a good value, still others regularly market a \$3.00 shoe for \$5.00. One investigator reports finding that retail distributive gross profits range from 24% to 35%; another fixes upon from 9½% to 30%, with an average at 23½%; and a third considers 33⅓% a fair average selling price mark-up for all lines, with normal costs between 22% and 26%, and reasonable net gains over 7⅓%, but under 11⅓%.

Nevertheless, typical gross and net profits are valuable, if for no other reason than that they point the fast turning, narrow-margin lines. They fix just when to stand up for a profit. At least they show what the other man is doing—mighty helpful knowledge, now that the days of big, easy-going profits have faded.

There can be no doubt about this dwindling of profits. In 1899 the average grocer marked up his stocks eighteen or twenty per cent; today twenty-five is more usual. The By-Products Coke Corporation of Chicago finds that rising costs, combined with other conditions, cut its net profits exactly 2.42% during 1913.

This chapter brings together several hundred typical profits. Since the low man usually sets the market's price within his trade radius, it is well worth the time to study these normal figures. But a sufficient array of modifying restrictions has been brought forward to prevent their receiving consideration as absolute standards. The charts on pages 111, 120 and 161, collect and average typical cost, discount and net profit figures. SYSTEM's investigators secured some of these facts, trade organizations worked out others, and a few only recently came before congressional committees handling legislation touching business. With all these typical profit facts the percentages refer to selling prices.

Business is no stronger than the weakest function—

if these averages indicate waste motions in distribution, this weakness will be felt all over the land. Distributors already sense the danger—dwindling bank balances supply exceedingly effective barometers. They first of all turn to costs of doing business—find out exactly where they stand. The next precaution is to prune these costs to the lowest figures possible—for cutting off a bit from the expense total means widening the profit margin. And the profit margin supplies the wherewithal for keeping up with rising costs.

Not until all of this is done can a business man turn to consumers goaded to insistence by the high cost of living and confidently say: "The conditions start beyond my control—I understand that it was up to me to help myself out first, and without assistance from anyone, without being forced to it, I've eliminated every false motion, every waste—over and above these rock-bottom costs of mine you've got to allow me to stand up for a sound profit."

XI

MORE TURNOVERS, THE ANSWER TO HIGHER COSTS

TURNOVER is the measure of the work each dollar in your business does for you. It is at once the way to profits and a check on your results. The world's largest manufacturing house in one line, for instanee, has all the brain-power of its organization concentrated just now on an effort to do better than turn its capital once in two years. Prices are so standardized in its field that they literally ean not be raised, though the cost of doing business is constantly inereasing. The only way this eompany's capital can make a living wage, therefore, is to spend less time on eaeh job—to make quieker turnovers.

With this end in view, the management is trying to cut down its ordinary supply of raw materials without hampering production, to speed up factory processes without adding expense, to carry smaller stocks of finished goods without sacrificing sales, and to short-cut collections without making payments too hard for prospects or eustomers. In wholesaling and retailing the same trend is evident.

Turn your capital oftener, then, is the answer heads of concerns, large and small, are making to rising eosts. Money in a business must earn more than bank interest. It buys raw material or stocks and pays running ex-

penses. When costs rise with selling prices fixed, makers and distributors must buy and sell on narrower margins of profit. But turn stock quickly and the little profits, totaled for a year, may equal or exceed a net gain based on wider margins over a longer time.

Standards for judging just how hard other men have made their capital work and the methods by which they have made more turnovers, drawn from the capital investment figures and the stock and sales reports of more than seven hundred going concerns, are here assembled. They are as important as any of the facts a merchant should have in his struggle against rising costs.

Rapid turnovers, for example, are today securing the trade of a new five-story department store in a small Indiana city for a less pretentious shop diagonally across the street. Its quick turns allow the smaller store, which is run by three brothers still in their thirties, to make money on margins so narrow that it repeatedly cuts under the prices set by the big rival's slow turnovers. The owners of the larger store, who bought their first stock in 1850, know bankruptcy is ahead if rising costs continue to mount into their dwindling profits. Bewildered for the first time in sixty years, they are fighting to save their sinking business. They have put in an accurate cost-keeping system, purchased new fixtures, and advertised heavily, still each January of the last three years has seen them meet deficits by reducing the savings set aside for their families.

The young brothers, also faced by rising costs, clearly understand why they are winning—they divide the high costs over many turns, a remedy for diminishing profits perfected since their older rivals learned to merchandise. These figures, which were taken from

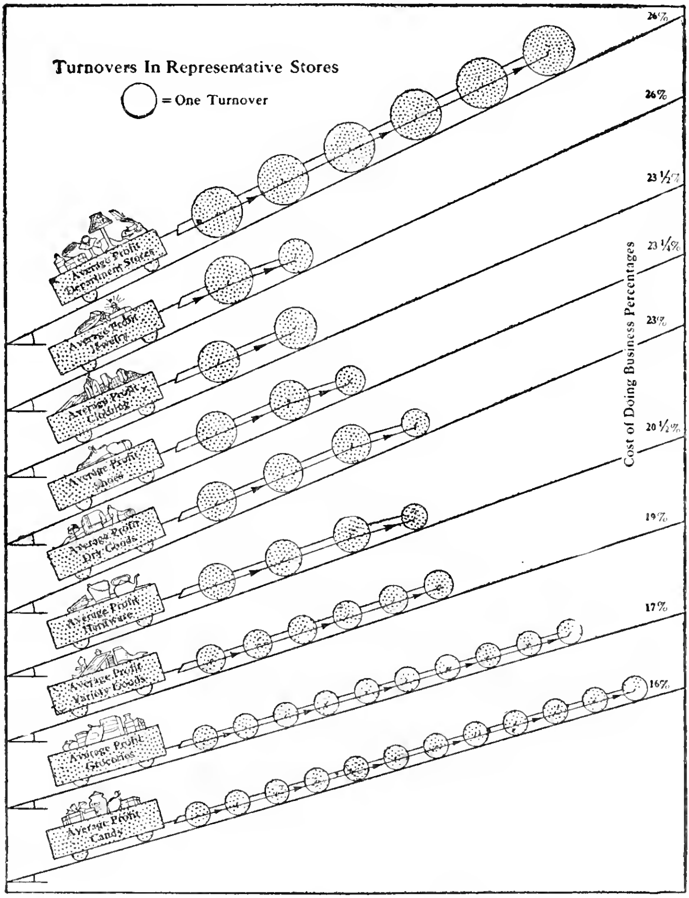

FIGURE XVII: The circles vary in size roughly according to the relative net profits. When two sizes appear for the same line, the smaller represents fractions of turnovers. This is also true of the chart on page 189

the books of the two stores during last October, epitomize the situation: average stock, at cost, in the three brothers' ready-to-wear section, which sells annually clothes worth

about $145,670 at wholesale, $14,481; corresponding facts from the big store—sales, $125,820; stock, $24,899. Since they are securing twice as many turnovers, the brothers make money on mark-ups which would not pay the larger store a cent.

"Quick sales at small profits is the modern idea," the elder of these three brothers says. "My brothers and I got our training under one of the most successful merchants in New England. Then we came west to try out his methods. We picked this city because the heaviest competition is controlled by two elderly men who learned the business in the days when the jobbers regularly gave six months' credit, and the retailers four or six. Theirs is the old idea—selling slow, at a good profit. We have in mind the Greek banana man who puts his money into fruit in the morning and has it back again by night, plus two or three per cent net profit. He makes over six hundred per cent on his capital annually, if he is out every working day.

"We succeed in turning our money seven times a year now. I don't believe our rivals do better than three. We are quite satisfied with five per cent net on a turn—or thirty-five on our investment in stock. They have to net over eleven per cent in order to equal our showing at the end of the year. We believe that it is better to get three sales at five per cent net, as long as you cover your costs, than it is to make one at ten. We build our big profit from a number of little profits—I think it's somewhat like carrying into merchandising a saying of Franklin's which father made me learn by heart: 'Five shillings turned is six, turned again is seven and three pence, and so on till it becomes a hundred pounds.'"

These ideas and methods are not unique. In practically every city and town some retailer or wholesaler

is using them to overcome competition and master rising costs. In Logansport, Indiana, for example, H. S. Seyboid, of the Seyboid Dry Goods Company, cut $5,000 from his linoleum inventory and handled more sales. In Columbus, Indiana, A. R. Rosenbush reduced his hat stock over $800 and satisfactorily cared for his usual trade. Numerous like instances show that shrewd merchandising on small stocks is enabling distributors to pay rising costs profitably.

MORE *turnovers enable you to meet rising costs and new competition. They also secure absolute savings of several sorts but must be based on sound profits.*

In much the same manner automatic machinery, new office appliances and scientific management have helped manufacturers and office men turn their capital quicker. When management finds a better way for handling men, money invested in wages yields higher returns; when an inventor perfects an office appliance that shortens tasks, again capital may be placed more advantageously; and when an automatic machine cuts factory work, the money spent for it gives larger dividends than resulted before the invention. More turnovers come from these advances, bringing new profits for meeting rising costs. Net gains nevertheless diminish in many industries because costs increase faster than the gross profits. Of course, the large sales volumes of today, when they proportionately lessen expenses, also make it possible for manufacturers and distributors to declare satisfactory dividends on lower net returns. But increasing the stock turn, usually a far more adaptable means, accomplishes the same object—higher profits with no advance in price.

If, then, more turnovers is the business man's answer to rising costs, why have they been neglected? It is not

difficult to explain. More than ordinary knowledge is required to secure a rapid stock turn and it has taken time for merchants to learn. Some got the knack quickly —our largest department stores, prospering on rapid turns at exceedingly narrow profit margins, resulted. The majority, however, saw no need for careful merchandising, since profits were long and costs low. But the rise in costs which has marked the last ten years—over three per cent in retail lines—forced them to either learn or go out of business. When profits were generous, competition scattered, credits long, and transportation slow, it was safe, or even necessary, to buy a year or six months ahead. Today, following the rise in costs, margins are not generous enough to allow the holding of profits on the shelves in merchandise. The hand-to-mouth buying which results when failure is avoided, demands a careful gauging of demand and a comprehensive stock-keeping system. Since these restrictions set no easy task, the commercial agencies tell us that ninety per cent of the retailers in America over-buy. Further, the reports of retail failures from the three causes which reflect the severity of the work—incompetence, neglect and inexperience—grow heavier: 33.3 per cent of all the bankruptcies in 1911, 36.8 in 1912.

This situation is of importance to all business, for it touches the profits of every enterprise. The happiness and prosperity of the homes are concerned, since over-the-counter prices must finally pay the cost of disasters in the factories and stores. To improve conditions enough to overcome the reduction in net profits, it is necessary that the merchants be given two types of assistance in their fight against rising costs and tightening competition—first, national standards against which

to check their stock turns; second, tested methods for speeding up the rates of turnover.

National stock turn averages from over seven hundred American stores have been figured from SYSTEM's investigations to give the averages for the ten standard types shown in the following list. The turnovers are for the complete stocks and have no reference to either the character or the number of the lines carried.

Type of Store	Average Number of Turnovers Obtained Annually
Grocery	10
Department	7
Variety goods	6
Drug	4.5
Dry goods	4
Hardware	3.5
Furniture	3
Shoe	2.1
Clothing	2
Jewelry	1.5

From the books of several hundred stores carrying departmentalized stocks averages for twelve standard lines were obtained as shown below.

Line	Average Number of Turnovers Obtained Annually
Notions	9
Corsets	8
Women's ready-to-wear	6
Wall paper	4.2
Men's furnishings	4.2
Underwear	4.1
Hosiery	4
Gloves	3.5
Dress goods	3.2
Silks	3.1
Domestics	3
Carpets	1.5

These average turnovers are for typical lines and bear no relation to the turns normally obtained through complete store stocks.

With these averages to check against, retailers are in a position to decide if their stock turns rank above or below the results secured in other stores. Turns are easily figured by dividing the sales for any period, at cost, by the cost of the average stock on hand during the period. Once he has secured turnover and cost figures for his store, it is not difficult for the retailer to demonstrate the added profit which an extra turn will bring. The net gains climb when the expenses are cut, the turnovers increased, the totals owing from customers reduced, or the gross profits lengthened. As soon as larger stocks accumulate, customers neglect to pay, or expenses increase, the net profits dwindle. To show these conditions, it is only necessary to express the customers' balances and the stocks as equal to so many average days' sales. Your sales, at cost, reach $360,000 a year, or $1,000 a day, let us suppose. Then, if your average stock costs $30,000, it equals thirty days' sales, and the total due from customers, fifteen days', if we take it as $15,000. Also, if your gross profit is twenty-five per cent and your cost of doing business twenty, the net profit for the period will equal the difference between these two percentages divided by the sum of the stock and the customers' accounts due, expressed in days, and multiplied by 360. Or, in figures:

Net profit on your capital for the year $= \frac{25-20}{30+15} \times 360$, or 40%.

If the stock is increased to a sixty days' supply, the turnover lessens, and the net profit at once falls:

Net profit on your capital for the year $= \frac{25-20}{60+15} \times 360$, or 24%.

But if you buy closer and push the goods on the shelves

down to a fifteen days' stock, the increased turnover carries the net profit upward:

Net profit on your capital for the year $= \frac{25-20}{15+15} \times 360$, or 60%.

Although these relations of profits to turnovers are universal, individual conditions vary the number of turns secured in specific stores. The standards given in this chapter therefore require modification when local influences are unusual. The turns obtained in a large department store and in a country general store will differ because of the heavy buying power touched by the city store and its managers' skill. The turnover averages which follow are from several large department stores and a score or more departmentalized concerns in country districts:

	Number of Turns Obtained Annually:	
Stock	City Department Stores	Country General Stores
Books	4	1.5
Candy	15	9
Clocks	2.5	1
Embroideries	3.5	3
Furs	5	3
Infants' clothing	5	3
Laces	4	2
Linens	3.5	2
Men's hats	7	4
Pianos	9	4
Ribbons	6	2
Stationery	5	2
Umbrellas and canes	11	3
Trunks	5	1.5
Veilings	5.5	2
Wash goods and flannels	5	3.2

The National Dry Goods Association has collected still another group of turnover facts which refers exclusively to the dry goods trade. This set of figures is

given below and should be considered under the restrictions mentioned on page 14 in connection with related statistics:

Line	Average Number of Turnovers Obtained Annually
Candy	13.27
Skirts and petticoats	7.22
Millinery	6.63
Coats, suits and dresses	5.5
Stoves, refrigerators and cookers	5.45
Shirtwaists	5.14
Patterns	5.05
Furs	4.55
Children's wear	4.45
Corsets	4.43
Toys and books	4.42
Umbrellas	4.38
Sewing machines	4.37
Neckwear and handkerchiefs	4.26
Wash goods	4.17
Notions	3.97
Linings	3.77
White goods	3.76
Hosiery	3.65
Furniture	3.65
Jewelry, toilet goods, bags and belts	3.45
Linens	3.4
Trunks and bags	3.39
Hair goods	3.22
Muslin underwear	3.20
Table linen and towels	3.09
Ribbons	3.01
Gloves and veilings	2.96
Silks	2.91
Dress goods	2.9
Knit underwear	2.89
Wall paper and decorations	2.88
Men's furnishings	2.73
Boys' clothing	2.56
Men's clothing	2.53
Laces	2.50
Infants' wear	2.41
Art goods and needlework	2.34
Embroideries and trimmings	2.26
Rugs, carpets and linoleums	2.18
Shoes and rubbers	2.18
China, glass and house furnishings	2.03

There are variations as marked in the number of turns obtained by stores selling single lines. The average turnover made by the groceries investigated was ten, but before competition tightened, John Harvey, vice-president of the Kansas Retailers' Association, handled sales averaging $100 a day with a two-thousand-dollar stock. Many a grocer is today carrying a stock equal to Mr. Harvey's for a fifty-dollar-a-day trade. Again, one of the largest concerns in Boston is making eighteen turns a year in its women's ready-to-wear sections—a Chicago store reporting an equal volume of sales fails to make fourteen turns in the corresponding departments.

FIVE *methods of quickening turns are here described. It is by plans such as these that success comes, for faster turns enable the merchant to fight harder.*

Investigations among drug stores set 4.5 as the national annual rate of turnover for the line. Nevertheless, one store in Chicago makes a turnover every twenty business days, and another, a few blocks down the same street, counts seventy days to a turn. Naturally, stores in cities report quicker turns than those near demands less dense, but expenses are usually lower outside of the urban sections. Even though they average similar variations, the standards here given enable retailers to check up their turns in a general way and to place their stocks in relation with other lines. When the standards are studied in connection with the charts on pages 177 and 189, which show rates of turnovers and costs, it is possible to pick the lines that should rightfully pay the heaviest expenses.

With such average turnover records available, it is not difficult intelligently to try out methods used by others for speeding up stock turns. Investigation of the mer-

chandising plans successfully used by merchants in five states shows that they are getting more turns in four ways: locating lines which move rapidly; weeding out the slow lines; setting stock limits; concentrating purchases with a few manufacturers or wholesalers. Some of these merchants are using only one or two of these methods, others all of them, but not one has discovered and tested a fifth plan.

The first method for obtaining more turnovers—locating the lines which turn quickly—is, according to one of the most successful merchants in New England, at the foundation of good merchandising. Still President McGlasson of the National Wholesale Grocers' Association says that when he asks retailers merely how much stock they have, without reference to the turns secured by lines, many reply, "Oh, I don't know." Locating the fast turning lines only requires that stock be taken frequently and the inventories compared with sales recorded by lines. Once the fast turning, profitable lines are known, they are pushed and the stock on the shelves cut to the lowest limit. The quicker the stocks in these lines change, the simpler it is definitely to satisfy customers and to merchandise on a small investment. Manufacturers frequently maintain in-stock departments for their fast turning lines, and thereby enable retailers to buy day-to-day supplies.

"We would not know where we were coming out if we didn't find the lines which turn quickly," declares a middle-western retailer who has made money out of hardware for thirty-two years. "Turnover and volume are in a way more important than profit—the success of R. H. Macey and Company in New York proves my statement. We—or anybody else, for that matter—could make money by selling everything on the shelves over-

night for three-fourths of the cost, if the next morning we could buy at full price what we knew was wanted. The fast turning lines are the wanted lines. If you know them, you have the makings of a good merchandiser —and a good merchandiser will succeed, even if he is a poor buyer. We simply keep our sales and inventories by lines. It helps at inventory time if the retail prices are put on each invoice."

The second plan for increasing turnovers is to weed out the lines which move slowly. Once the fast turning stocks are tabulated, the less profitable lines immediately become evident. If these slow goods will not stand heavier mark-ups than the rapid lines, they are usually unworthy of shelf room. Eliminating unprofitable lines overcomes a cause of retail failure mentioned by 84 per cent of the successful merchants reached by the investigation in four states—carrying too many lines. There are many lines which do not turn fast enough to warrant the retailer's investment, for depreciation gradually eats up the slender profit margins they offer. A huge sales volume might be built around these lines, and not a penny of net profit result. The stores which frequently go under when all is apparently prosperous are making this type of sales—their owners have not weeded out the slow lines.

A jeweler who built a business given up by his father as worthless into a going concern netting him five thousand dollars a year, has definite views about this danger springing from slow turning lines. "If you don't know the weak lines, you're bound to hold stocks from season to season, and that's the shortest road to failure," he says. "It's all very well to have a bargain sale or call a job man or start a bargain store under your uncle's name, but it is much more profitable to know the stickers

ahead of time. Then you can go easy on weak lines; or, if you do get caught, persuade the clerks to help you with extra efforts before it is necessary to take mark-downs.

"Don't stop at merely knowing the turns by lines, but know the goods. How many men who sell them every day know how clothespins are made? Close acquaintance with your stock will probably enable you to widen your appeal to customers by selecting new lines—and to do so brings new profits. When you get that sort of a grip on your stocks it's only a question of stock-keeping to weed out profitless lines. Once you get the rapid turning lines going well, you will be in a position to aim for big gross sales and less profit—that is the type of business which makes money. I sell a certain novelty pin, for instance, from a ten-dollar stock, by re-ordering daily. I don't invest more than twenty dollars at a time and I turn it twice a week at three per cent net on each turnover. My friend down the street sells at a twenty per cent net profit a farm implement which cost him one hundred dollars. It took him six months to make the sale. Against his forty per cent—counting that he repeats the sale in a like time—I make three hundred and twelve per cent on the investment and have eighty dollars less tied up. That eighty I put into other fast lines."

CLOSE *buying, from a restricted number of sources, with a careful eye to the stockkeeping standards of your line, is the reply to the problem of rising costs.*

Third among the tested methods used by the merchants working in four states for rapid turns are definite stock limits and plans. The best way to prevent overbuying, in the opinion of these merchants, is to fix the lowest stock which will satisfy demand and then place

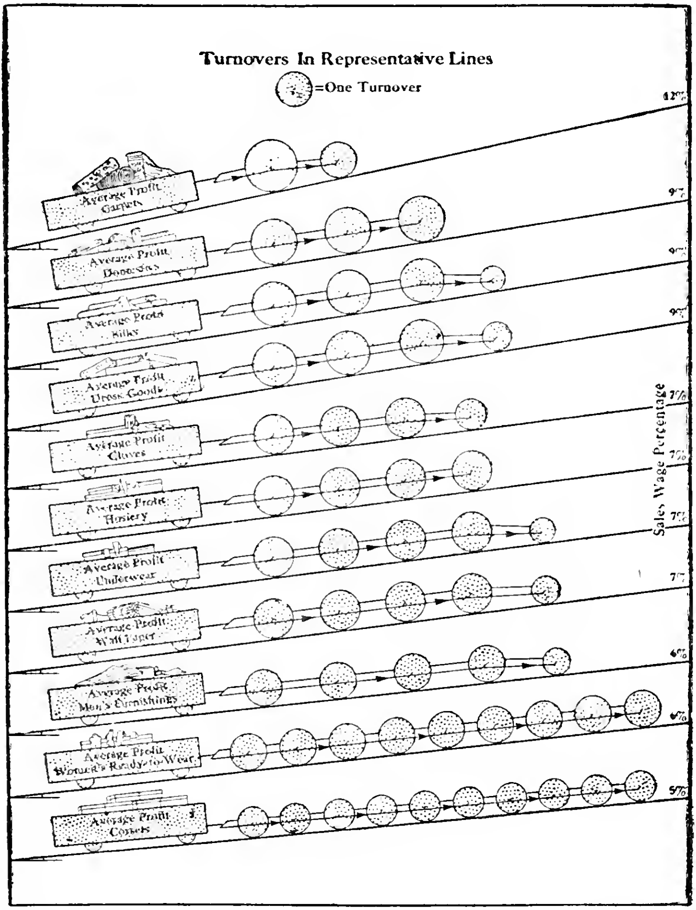

FIGURE XVIII: To pull what is considered a fair profit for the lines and stores up the grade of the cost of doing business or making sales requires on the average the number of turnovers here represented by circles

orders accordingly. This, again, is a stock-keeping problem. Sales and purchases kept by lines give turnovers. From several years' records of turnovers, sales and pur-

chases are next estimated three, or even six, months ahead. A reasonable increase in sales is figured and leeway left so that attractive "snaps" may be purchased. It is then possible to hold the stock to limits fixed by weekly, monthly and semi-annual reports. The facts for these reports are taken directly from the sales slips and account books.

A system of this nature is maintained in the store of every one of the successful merchants whose methods were investigated. Some of the stores have elaborate records, others only a cash book and a few cards for recording sales and inventories. They all, however, know limits beyond which it is unsafe to buy. This overcomes the constant temptation to buy for a discount, to let the stocks grow faster than the turns, or to allow the buying to get ahead of the selling. The investments in stocks are automatically held to profitable figures, the orders restricted to small quantities, and the fast turning lines pushed. In these stores new stock is arriving every day—fresh goods which the salesmen like to handle—and very little of the profit is on the shelves.

There is one danger in buying too close, however. An Iowa variety store owner, who averages eight turnovers a year, mentioned it specifically, although the majority of the merchants seen by the investigators referred to it. "Your profits are in buying close," he said, "but you are tempted to cut down your assortments, and that costs trade. Butler Brothers, the wholesale house, tell me that all of the failures reported to them in my line during the last thirty-five years were caused either by too much stock or too few lines. So we are between fires. There is only one object, however—to get what the customers want, in the quantity they need, at prices they are willing to pay. I find that a

want book and a simple perpetual inventory increased the turns in one of my departments from one to four and a half. I keep four daily records—charge and cash sales by departments or divisions of merchandise: daily sales by clerks; money due from customers; and money owed by me and my bank balance—and six monthly records—clerks' wages and sales; charge and cash sales by departments or divisions of merchandise; net profits; expenses; inventories; and notes outstanding.

"But, after all, records are valueless unless you learn to say no, when you're properly stocked, to the type of salesman who talks about sales prospects, loads you up with more than you need, and then helps out your rival when you can't buy any more. My advice is to be as careful about the buying as you were the first year in business and to care for it yourself as long as your time is not exceedingly valuable doing something else."

The fourth method for obtaining more turnovers is to concentrate the buying with a few wholesalers or manufacturers. To do so is helpful in two specific ways. First, there is less danger to the retailer of over-buying through duplication, and bookkeeping troubles are reduced. Second, the manufacturer or wholesaler is naturally unusually interested in the retailers who buy heavily from him. Especially in lines where style changes are important, cooperation between the retailer and the manufacturer is valuable to both. The style points which the manufacturer is able to supply help to increase over-the-counter sales when passed on to the retail selling forces. Small stores are assisted in their buying, and guarded from over-stocking, by the manufacturers' or the wholesalers' salesmen, when the orders are large. On the other hand, most traveling salesmen attempt to over-load the man who unnecessarily scatters

his buying. Furthermore, the best "snaps," and the most favorable service, go to the retailer who has concentrated his buying.

Standards against which to check the times invested capital should turn, and plans like these tested methods for handling stocks, supply more turnovers—the business man's answer to mounting costs—not only to the retailer, but to all business. In office and factory the stocks are not usually retailed. Still they respond to improved methods for getting more from business investments. Standards for office work are being established, and turnover averages in some manufacturing industries are already known. Alex. Legge, general manager of the International Harvester Company, has called the attention of his men to the increased turnover which will result from holding down the materials on hand, the goods on display, and the credits extended to customers. His immense organization is faced by increasing costs—so are most enterprises; the effects and results of efforts to meet these higher expenses will influence makers and distributors alike. When the retailer buys in smaller lots, wholesalers must ship with greater frequency. Manufacturers, in their turn, establish in-stock departments or supply the jobbers with smaller units. In other words, the broad answer to rising costs prescribes, first, strong cooperation between the makers and the distributors; second, an earnest spirit among enterprises to help one another make money yield larger returns by turning it more rapidly.